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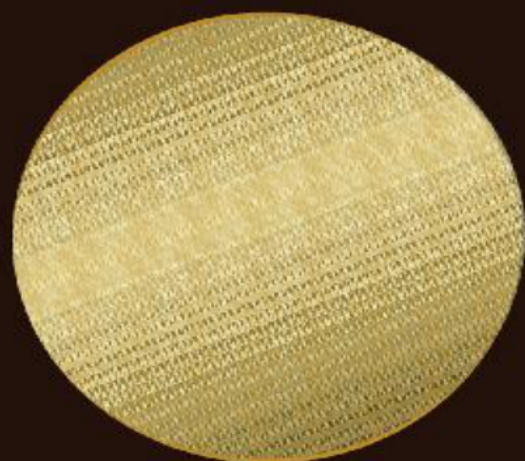
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CONTENTS

- ❖ Dedication
- ❖ Preamble
- ❖ Chapters (1-11)

1. Gold And Money
2. What Is Money?
3. Banks
4. Inflation
5. Wealth
6. Investment
7. Investing In Gold
8. Investing In Real Estate
9. Stock Investing
10. Human Capital
- 11 Success

❖ DEDICATION

This Master piece is dedicated to our Lord and Saviour Jesus Christ,

for the STRENGTH YOU GIVE US EVERY SINGLE DAY and a purpose to live.

❖ Preamble

Although money can take an extraordinary variety of forms, there are really only two types of money: money that has intrinsic value(i.e gold) and money that does not have intrinsic value(i.e currency).

Gold and silver are the most widely used forms of commodity money. Gold and silver are intrinsic because they could be used as jewelry and for some industrial and medicinal purposes, so they have value apart from their use as money.

So you can now see that there exists a large, but not too large, and almost fixed quantity of gold in the world, almost all of which is held by its owners as a tangible store of wealth.

By contrast to gold's restricted supply of our money systems are currently expanding out of control. Modern monetary policies are expanding the supply of currency, under political direction.

The currency—paper money and coins—used today is fiat money; it has no value other than its use as money.

What is different about gold and other forms of money is the way they disappear, and why. Because of its natural qualities, it is recommended as a high quality form of money.

As you make profit of your talent and human capital, do not forget to invest wisely. This way your money can also work for you. Real wealth lies in long term investment such as gold and other investment vehicles.

What is an Investment Vehicle?

Investing means putting your money to work for you—actually, it's a different way to think about how to make money.

An investment vehicle is a product used by investors with the intention of gaining positive returns.

This Book “Money” will be of a great help to you. Enjoy!

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Chapter 1

Gold And Money

The history of gold is synonymous with the story of wealth and money.

The first official declaration of gold as money came around 600 BC, where King Alyattes of Lydia, an ancient kingdom in modern-day Turkey, oversaw the first recorded mint.

Around 3,100 BC, the Egyptian ruler Menes laid the foundation for incorporating gold into the Egyptian economy and decreed that “one part of gold is equal to two and one-half parts of silver in value”.

A gold standard is a monetary system in which the standard economic unit of account is based on a fixed quantity of gold. Three types can be distinguished: specie, bullion, and exchange.

In the gold specie standard the monetary unit is associated with the value of circulating gold coins, or the monetary unit has the value of a certain circulating gold coin, but other coins may be made of less valuable metal.

The gold bullion standard is a system in which gold coins do not circulate, but the authorities agree to sell gold bullion on demand at a fixed price in exchange for the circulating currency.

The gold exchange standard usually does not involve the circulation of gold coins. The main feature of the gold exchange standard is that the government guarantees a fixed exchange rate to the currency of

another country that uses a gold standard (specie or bullion), regardless of what type of notes or coins are used as a means of exchange. This creates a de facto gold standard, where the value of the means of exchange has a fixed external value in terms of gold that is independent of the inherent value of the means of exchange itself.

Most nations abandoned the gold standard as the basis of their monetary systems at some point in the 20th century.

The UK came off the gold standard under Ramsay MacDonald in 1931.

In the early modern era, the United States of America had used various amalgamations of both metal and paper currency options, but in 1792 the coinage act saw the birth of the United States mint and the US dollar. The 'classic' gold standard was adopted in 1879 and was further solidified in 1900, whilst the UK officially defined the pound sterling relative to gold in 1816. Major powers would periodically abandon gold to finance wars throughout the 20th century, and it was finally abandoned by the UK in 1931 and by the USA in 1971, having been slowly eroded by the Federal government since the Great Depression. Although many central banks still maintain substantial gold reserves, no current modern monetary system officially backs its currency by gold.

Why and when to hold gold bullion?

Gold is the proven, quality, long-term wealth store during a slide into deep crisis - the one which everyone else comes to in a bit of a panic.

The early buyers bought gold purely to protect their wealth. They still tend to multiply their money, because they are subconsciously anticipating future demand.

Gold is not consumed in any meaningful sense. A tiny amount finds some use as false teeth because of its inertness, and some is used in electronics because of its non-corrosive nature and excellent conductivity.

But currently well over 95% of the world's gold is held as a wealth store - either in bullion vaults or as jewelry, which is generally considered a private monetary reserve (particularly in India, the world's biggest gold customer).

This stock of gold isn't disappearing, and its supply is growing at a very slow rate (1.6%) compared to its overall stock. This feature of a nearly fixed above ground quantity, growing slowly, has been true for about 4,000 years.

So you can now see that there exists a large, but not too large, and

almost fixed quantity of gold in the world, almost all of which is held by its owners as a tangible store of wealth. That is something which is true of nothing else.

By contrast to gold's restricted supply our money systems are currently expanding out of control. Modern loose monetary policies - designed to keep the factories busy - are expanding the supply of currency, under political direction, by at least 11% per annum; and that's for the Euro, the most hawkishly managed of the modern world's major currencies.

In such circumstances gold's reliable rarity is again noticed by savers. Its great use is as a money proxy when artificial forms of money (which are far more common) are not being properly restricted in supply. In such times gold's unexpandable supply causes it to be a much more reliable store of purchasing power than currency. Nothing does this job so reliably and so well as gold, because nothing matches the unimpeachable rarity and stability of gold's above ground supply.

Better still, as people come to remember and appreciate this unique quality their demand for gold causes not just a retention of purchasing power, but a multiplication of it.

What is different about gold and other forms of money is the way they disappear, and why. Because its natural qualities recommend it as a high quality form of money gold suffers from Gresham's Law, a common sense law in economics which states that "bad money drives good money out of circulation".

Think about it for a moment and you'll see that given a choice of spending good money (gold) or bad money (inflating paper) you'd spend the paper and keep the gold as a store of value. So in an economy where economic and political considerations have combined to produce a paper currency running in parallel with gold, and where that currency is showing the early signs of being dangerously expanded in supply, then people will elect to hold on to gold and spend paper.

While paper money forms disappear permanently, and lose all their value, gold disappears temporarily, and retains its value over the very long term.

Every few years, and when circumstances are right, gold returns. It has a history of doing so which has lasted those 4,000 years.

The trick with gold is to understand the causes for these rolling phases, to recognise them, and to act appropriately. If you own gold at the right time you will own a fast appreciating asset when normal

business assets, and money itself, are tumbling in value.

Owning gold in good phase is very profitable. In the 5 years after the 1929 crash gold's investment purchasing power rose 17 times.

In the decade of the 1970s gold's investment purchasing power rose 15 times.

So far in gold's current re-emergence, with the economic situation looking every bit as hostile as the 30s and the 70s, gold's price has multiplied by about 3 times. By comparison with those previous cycles it is still nearer the bottom than the top.

The history of gold turning into money spans over a period of 2600 years and the turning point in gold's history is the year 1971.

We might not see gold in stores, while paying our taxes, or while taking credits from a bank, but it is an element profoundly involved in all these actions.

Chapter 2

What Is Money?

Money should be the easiest questions to answer in economics; after all, money is the one thing that we all use in an economy—surely we know what it is, and where it comes from right?

Money is primarily a medium of exchange or means of exchange. It is a way for a person to trade what he has for what he wants. Ideal money has three critical characteristics: it acts as a medium of exchange; it is an economic good; and it is a means of economic calculation.

Medium of Exchange: To properly understand money as a medium of exchange one must first go back to the first methods of trade. Before money was invented one would have to engage in direct barter. A farmer who produced grain – but wanted shoes for his family – would have to find someone who, a) had shoes and, b) wanted grain. You

can imagine the difficulty involved in finding that perfect someone who had what the farmer wanted and wanted what the farmer had.

Out of necessity, this gave rise to indirect barter.

Economic Good: Over time, different commodities served as medium of exchange but the problem of marketability and durability came into play. A necessary and highly exchangeable commodity was food. The problem is that it was perishable. One had to either use it or trade it before it went bad. Over time, the most marketable and durable commodities came to be used as medium of exchange – commodities such as gold and silver. Since gold and silver did not rust nor rot they were ideal economic goods. Over time they became the preferred medium of exchange.

Economic Calculation: Money is an expression of exchange value (the exchange values placed on goods by traders in the marketplace). In our examples above, it was extremely inefficient to express the exchange value of goods in units of sacks of grain, shoes, etc. Out of necessity the market gravitated toward the use of the exchange value of fixed weights of gold and silver. As an example, the original U.S. Silver Dollar was modeled after the Spanish Dollar which had a specific weight of silver (371 $\frac{4}{16}$ th grains of pure silver or 416 grains of standard silver). A simple method of economic calculation consisting of weights and measures greatly improves trade and fosters economic growth.

So what is the best form of money?

In actuality, the best approach is to let the people (the free market) decide what they want to use as money. There is no need for a central bank, government control, or legal tender laws. History has shown that, when left up to the people, silver and gold tend to gravitate to the role of money for the following reasons:

Scarcity – Supply cannot be manipulated like fiat money which causes the boom and bust cycles in the economy

Durability – Gold and silver will not rot which makes them a great store of value

Fungible And Divisible – They can be divided into small, interchangeable amounts which make them ideal for trade.

Portable – Their high concentration of value allows you to carry and store substantial value

Proven – Gold And Silver have been used as money for over 6000 years of recorded history.

Use Value – Both gold and silver have tremendous use value in industry. The highest use value though is in their role as money.

The first bankers were the goldsmiths. Miners would bring the gold to the goldsmiths for minting. The goldsmith would give the miner a receipt that he could redeem when the minting was completed. The miner soon found that he could immediately trade his receipt (his claim on the gold) for tools and supplies and return to the mines without having to wait for his gold.

Over time, the goldsmith found that the receipts he issued stayed in circulation and were being used as medium of exchange. Only a small percentage of the people ever came in to redeem the receipts. To increase his purchasing power he simply began to issue his own fraudulent receipts (that had no gold backing) and used them to acquire goods and services. This increase in the number of outstanding receipts created inflation and lessened the value of all of the other outstanding receipts.

In later days, central banks did the same thing. They issued more receipts (paper currency) than they had the gold and silver to back it.

In essence, the goldsmiths (central bankers) reneged on their promise to honor their warehouse receipts and effectively stole the gold and silver that was owed to the populace. It was laziness on the part of the populace to blindly trust the central bankers with their money and deceit on the part of the central bankers when they reneged on their promises. The central bankers were now able to expand and contract the supply of money (nonredeemable certificates) to exert their power and influence over the populace.

A common and misguided criticism of the use of gold and silver as money is that “there isn’t enough to go around”. Let’s answer that here:

Gold and Silver are easily divisible in their physical form and, when combined with technology, infinitely divisible

The second type of money is fiat money, which does away with the need for a physical commodity to back it. Instead, its value is set by supply and demand, and people's faith in its worth. Fiat money developed because gold was a scarce resource and economies growing quickly couldn't always mine enough to back their currency supply requirements. For a booming economy, the need for gold to give money value is extremely inefficient, especially when, as we already established, its value is really created through people's perception.

Fiat money becomes the token of people's perception of worth, the basis for why money is created. An economy that is growing is apparently doing a good job of producing other things that are valuable to itself and to other economies. Generally, the stronger the economy, the stronger its money will be perceived (and sought after)

and vice versa. But, remember, this perception, although abstract, must somehow be backed by how well the economy can produce concrete things and services that people want.

For example, in 1971, the U.S. dollar was taken off the gold standard – the dollar was no longer redeemable in gold, and the price of gold was no longer fixed to any dollar amount. This meant that it was now possible to create more paper money than there was gold to back it; it was the health of the American economy that backs the dollar's value. If the economy takes a nosedive, the value of the U.S. dollar will drop both domestically through inflation, and internationally through currency exchange rates. The implosion of the U.S. economy would plunge the world into a financial dark age, so many other countries and entities are working tirelessly to ensure that never happens.

Nowadays, the value of money (not just the dollar, but most currencies) is decided purely by its purchasing power, as dictated by inflation. That is why simply printing new money will not create wealth for a country. Money is valuable because we want it, but we want it only because it can get us a desired product or service.

But exactly how much money is out there and what forms does it take?

Economists and investors ask this question everyday to see whether there is inflation or deflation. To make money more discernible for measurement purposes, they have separated it into three categories:

M1 – This category of money includes all physical denominations of coins and currency; demand deposits, which are checking accounts and NOW accounts; and travelers' checks. This category of money is the narrowest of the three; it's essentially the money used to buy things and make payments.

M2 – With broader criteria, this category adds all the money found in M1 to all time-related deposits, savings accounts deposits, and non-institutional money market funds. This category represents money that can be readily transferred into cash.

M3 – The broadest class of money, M3 combines all money found in the M2 definition and adds to it all large time deposits, institutional money market funds, short-term repurchase agreements, along with other larger liquid assets.

By adding these three categories together, we arrive at a country's money supply, or the total amount of money within an economy.

The M1 category includes what's known as active money – that is, the total value of coins and paper currency in circulation amongst the public. The amount of active money fluctuates seasonally, monthly,

weekly and daily. In the United States, Federal Reserve Banks distribute new currency for the U.S. Treasury Department. Banks lend money out to customers which becomes classified as active money once it is actively circulated.

How Is Money Created?

Now that we've discussed why and how money, a representation of perceived value, is created in the economy, we need to touch on how a country's central bank can influence and manipulate its money supply.

Let's look at a simplified example of how this is done. If it wants to increase the amount of money in circulation, the central bank can, of course, simply print it, but the physical bills are only a small part of the money supply.

Another way for the central bank to increase the money supply is to buy government fixed-income securities in the market. When the central bank buys these government securities, it puts money into the marketplace, and effectively into the hands of the public. Now the question is, how does a central bank such as the Federal Reserve pay for this? As strange as it sounds, they simply create the money out of thin air and transfer it to those people selling the securities! Or, it can lower interest rates, allowing banks to extend low-cost loans or credit – a phenomenon known as cheap money – and encouraging businesses and individuals to borrow and spend.

To shrink the money supply, the central bank does the opposite and sells government securities. The money with which the buyer pays the central bank is essentially taken out of circulation.

Remember, as long as people have faith in the currency, a central bank can issue more of it. But if the Fed issues too much money, the value will go down, as with anything that has a higher supply than demand. So even though technically it can create money "out of thin air," the central bank cannot simply print money as it wants.

Money has changed a lot since the days of shells and skins, but its main function hasn't changed at all. Regardless of what form it takes, money offers us a medium of exchange for goods and services and allows the economy to grow as transactions can be completed at greater speeds.

Money, ultimately, is defined by people and what they do. When people use something as a medium of exchange, it becomes money. If people were to begin accepting tennis balls as payment for most goods and services, tennis balls would be money.

Types of Money

Although money can take an extraordinary variety of forms, there are really only two types of money: money that has intrinsic value and money that does not have intrinsic value.

Commodity money is money that has value apart from its use as money.

Gold and silver are the most widely used forms of commodity money. Gold and silver can be used as jewelry and for some industrial and medicinal purposes, so they have value apart from their use as money. The coins were fashioned from electrum, a natural mixture of gold and silver. But something need not have intrinsic value to serve as money.

Fiat money is money that some authority, generally a government, has ordered to be accepted as a medium of exchange. The currency—paper money and coins—used in the United States today is fiat money; it has no value other than its use as money. You will notice that statement printed on each bill: “This note is legal tender for all debts, public and private.”

Moreover, checkable deposits, which are balances in checking accounts, and traveler’s checks are other forms of money that have no intrinsic value. They can be converted to currency, but generally they are not; they simply serve as a medium of exchange. If you want to buy something, you can often pay with a check or a debit card. The check or debit card just tells a bank to transfer money, in this case checkable deposits, from one account to another.

Nevertheless, as stated earlier, what makes money something is really found in its acceptability, not in whether or not it has intrinsic value or whether or not a government has declared it as such. For example, fiat money tends to be accepted so long as too much of it is not printed too quickly. When that happens, as it did in Russia in the 1990s, people tend to look for other items to serve as money. In the case of Russia, the U.S. dollar became a popular form of money, even though the Russian government still declared the ruble to be its fiat money.

Over the last few decades, especially as a result of high interest rates and high inflation in the late 1970s, people sought and found ways of holding their financial assets in ways that earn interest and that can easily be converted to money. For example, it is now possible to transfer money from your savings account to your checking account using an automated teller machine (ATM), and then to withdraw cash from your checking account. Thus, many types of savings accounts are

easily converted into currency.

Economists refer to the ease with which an asset can be converted into currency as the asset's liquidity. Currency itself is perfectly liquid; you can always change two \$5 bills for a \$10 bill. Checkable deposits are almost perfectly liquid; you can easily cash a check or visit an ATM. An office building, however, is highly illiquid. It can be converted to money only by selling it, a time-consuming and costly process.

As financial assets other than checkable deposits have become more liquid, economists have had to develop broader measures of money that would correspond to economic activity.

Gold, Silver and Copper

The first metals used in coinage were gold and silver. Employment of these metals happened for their rarity, beauty, immunity to corrosion and economic value.

Minting of gold and silver coins was common for many centuries, and pieces were guaranteed by their intrinsic value, that is to say, by the trade value of the metal used in their production. Then, a coin made with twenty grams of gold was exchanged for goods of even value.

For many centuries, countries minted their most highly valued coins in gold, using silver and copper for lesser value coins. This system was kept up to the end of the last century, when cupronickel, and later other metallic alloys, became used, and coins came to circulate for their extrinsic value, that is to say, for their face value, which is independent from their metal content.

With the appearance of paper money, minting of metal coins was restricted to lower values, necessary as change. In this new role, durability became the most requested quality for coins. Large quantities of modern alloys appeared, produced to support the high circulation of change money.

In Brazil, the first bank notes, precursors of the current notes, were issued by Banco do Brasil in 1810. They had its value written by hand, as we today do with our checks.

With time, in the same form it happened with coins, the government came to conduct the issue of notes, controlling counterfeits and securing the power to pay.

Paper money experienced an evolution regarding the technique used in their printing. Today, the printing of notes uses especially prepared paper and several printing processes, which are complementary to

each other, assuring to the final product a great margin of security and durability conditions.

The set of coins and bank notes used by a country form its monetary system. The system is regulated by appropriate legislation and organized from a monetary unit, its base value.

Currently almost all countries use a monetary system of centesimal basis, in which the coinage dividing the unit represents one hundredth of its value.

Normally, higher values are expressed in notes while smaller values are represented by coins. The current world trend is that daily expenses be paid with coins. Modern metallic alloys enable coins to be more durable than notes, making them more appropriate to the intense use of money as change.

The countries, through their central banks, control and guarantee the issue of money. The set of notes and coins in circulation, the so called monetary mass, is constantly renewed through the process of sanitation, substitution of worn out and torn notes.

Chapter 3

Banks

The history of banking began with the first prototype banks were the merchants of the world, who made grain loans to farmers and traders who carried goods between cities. In the Middle Ages, Italians used to

conduct their commercial transactions while sitting on the bench. Later, this very word 'banco' underwent changes and became 'bank'. Now, all the countries of the world have banking systems.

Initially money lending and banking was done by the Jews and later on by goldsmiths. Merchants, in fact, paid the goldsmiths to look after their surplus cash. These goldsmiths gave receipts like a bank note to the merchants for the cash, they deposited with them. Not only that, they could lend a part of that money to others earning an interest from them. They could thus make extra money. A part of thus earned money, they gave to the merchants as an incentive to deposit money with them. This was the starting point of the savings bank or the deposit scheme in the banks at a later date.

Merchants also wrote letters to the goldsmiths to pay another merchant from their deposited money. This amounted to issue of "cheque". The modern banking system started in Venice in 1587, and in the same year the "Banco di Rialto" was established. People could deposit money in this bank and could draw when they needed it. In 1619 'Banco di Giro' took Bank Cheque over the management of this bank. People could deposit even their gold and silver items in this bank for which the bank issued receipts. These receipts were used as currency notes. Archaeology from this period in ancient China and India also shows evidence of money lending activity.

Many histories position the crucial historical development of a banking system to medieval and Renaissance Italy and particularly the affluent cities of Florence, Venice and Genoa. The Bardi and Peruzzi Families dominated banking in 14th century Florence, establishing branches in many other parts of Europe. The most famous Italian bank was the Medici bank, established by Giovanni Medici in 1397. The oldest bank still in existence is Banca Monte dei Paschi di Siena, headquartered in Siena, Italy, which has been operating continuously since 1472.

The development of banking spread from northern Italy throughout the Holy Roman Empire, and in the 15th and 16th century to northern Europe. Scottish businessman William Paterson founded the Bank of England in 1694 on request of the British government to finance a war.

The First Bank of the USA was founded in 1791 and had a 20-year charter. It was however revived again in 1816 and gave birth to the Second Bank of the United States. This desperate move to stabilize the currency by US president James Madison was later revoked by US president Andrew Jackson who withdrew the bank's Federal Charter in 1836. In 1841 the Second Bank of the United States ceased all operations.

The history of central banking came alive again in 1913 with the constitutionally disputed foundation of the Federal Reserve.

As nearly all currencies in the world have transformed into fiat money over the past 4 centuries, i.e. the notes mandated to be used by government fiat, all countries have some sort of central bank that is responsible for keeping inflation low and provide a money supply that does not overshoot economic growth too much. Other tasks vary widely from country to country.

Central banks primarily purchase short-term debt issued by the governments of the countries in which they serve.

Central banks also usually oversee the commercial banking system of their respective countries. In contrast to a commercial bank, a central bank possesses a monopoly on increasing the monetary base in the state, and usually also prints the national currency, which usually serves as the state's legal tender. Central banks also act as a "lender of last resort" to the banking sector during times of financial crisis. Most central banks usually also have supervisory and regulatory powers to ensure the solvency of member institutions, prevent bank runs, and prevent reckless or fraudulent behavior by member banks.

So is the Federal Reserve Banks private or public?

The answer is both. While the Board of Governors is an independent government agency, the Federal Reserve Banks are set up like private corporations. Member banks hold stock in the Federal Reserve Banks and earn dividends. Holding this stock does not carry with it the control and financial interest given to holders of common stock in for-profit organizations. The stock may not be sold or pledged as collateral for loans.

Banks basically make money by lending money at rates higher than the cost of the money they lend. More specifically, banks collect interest on loans and interest payments from the debt securities they own, and pay interest on deposits, CDs, and short-term borrowings. The difference is known as the "spread," or the net interest income, and when that net interest income is divided by the bank's earning assets, it is known as the net interest margin.

The largest source by far of funds for banks is deposits; money that account holders entrust to the bank for safekeeping and use in future transactions, as well as modest amounts of interest. Generally referred to as "core deposits," these are typically the checking and savings accounts that so many people currently have.

In most cases, these deposits have very short terms. While people will typically maintain accounts for years at a time with a particular bank, the customer reserves the right to withdraw the full amount at any

time. Customers have the option to withdraw money upon demand and the balances are fully insured, up to \$250,000, therefore, banks do not have to pay much for this money. Many banks pay no interest at all on checking account balances, or at least pay very little, and pay interest rates for savings accounts that are well below U.S. Treasury bond rates.

Banks often issue preferred shares to raise capital. As this capital is expensive, and generally issued only in times of trouble, or to facilitate an acquisition, banks will often make these shares callable. This gives the bank the right to buy back the shares at a time when the capital position is stronger, and the bank no longer needs such expensive capital.

Although debt is relatively common on bank balance sheets, it is not a critical source of capital for most banks. Although debt/equity ratios are typically over 100% in the banking sector, this is largely a function of the relatively low level of equity at most banks. Seen differently, debt is usually a much smaller percentage of total deposits or loans at most banks and is, accordingly, not a vital source of loanable funds.

For most banks, loans are the primary use of their funds and the principal way in which they earn income. Loans are typically made for fixed terms, at fixed rates and are typically secured with real property; often the property that the loan is going to be used to purchase. While banks will make loans with variable or adjustable interest rates and borrowers can often repay loans early, with little or no penalty, banks generally shy away from these kinds of loans, as it can be difficult to match them with appropriate funding sources.

Part and parcel of a bank's lending practices is its evaluation of the credit worthiness of a potential borrower and the ability to charge different rates of interest, based upon that evaluation. When considering a loan, banks will often evaluate the income, assets and debt of the prospective borrower, as well as the credit history of the borrower. The purpose of the loan is also a factor in the loan underwriting decision; loans taken out to purchase real property, such as homes, cars, inventory, etc., are generally considered less risky, as there is an underlying asset of some value that the bank can reclaim in the event of nonpayment.

Prior to the collapse of the housing bubble, home equity lending was a fast-growing segment of consumer lending for many banks. Home

equity lending basically involves lending money to consumers, for whatever purposes they wish, with the equity in their home, that is, the difference between the appraised value of the home and any outstanding mortgage, as the collateral.

As the cost of post-secondary education continues to rise, more and more students find that they have to take out loans to pay for their education. Accordingly, student lending has been a growth market for many banks. Student lending is typically unsecured and there are three primary types of student loans in the United States: federally sponsored subsidized loans, where the federal government pays the interest while the student is in school, federally sponsored unsubsidized loans and private loans.

Credit cards are another significant lending type and an interesting case. Credit cards are, in essence, personal lines of credit that can be drawn down at any time. While Visa and MasterCard are well-known names in credit cards, they do not actually underwrite any of the lending. Visa and MasterCard simply run the proprietary networks through which money (debits and credits) is moved around between the shopper's bank and the merchant's bank, after a transaction.

Not all banks engage in credit card lending and the rates of default are traditionally much higher than in mortgage lending or other types of secured lending. That said, credit card lending delivers lucrative fees for banks: Interchange fees charged to merchants for accepting the card and entering into the transaction, late-payment fees, currency exchange, over-the-limit and other fees for the card user, as well as elevated rates on the balances that credit card users carry, from one month to the next.

Traditionally, banks made money by borrowing from depositors at low interest rates, lending that money at higher interest rates to borrowers, and pocketing the difference.

Eventually, main street companies discovered that they could borrow from the bond markets more cheaply than they could from banks. This brought about consumer products such as interest bearing checking, credit cards, money market accounts, home equity loans, student loans, etc in order to stay competitive.

Two things ended up happening: Banks realized that the bigger they were, the more loans they could make. With deregulation, the big banks grew even bigger by acquiring smaller banks. Banks also realized that the easiest way to make more money was to simply charge consumers more fees. In fact, the best way to make money was to call a product “free” by eliminating any monthly fees, and then charging lots of fees on transactions.

There are three main sources of revenue in retail banking today.

Net interest margin: this is the difference, or “net”, between the interest paid to depositors and the interest received from borrowers. At the moment, the Fed’s low interest rate policy means that depositors get almost no money for their savings, and bank margins are huge. Many large banks are making margins over 4% at the moment.

Interchange: Everytime you swipe a card at a store, the merchant pays a small percentage of the money to the bank that issued the card, called an interchange fee. For credit cards this is around 1.7%, while for debit cards it is nearer to 1.1%. Given that Americans have lots of credit cards, it is a huge revenue stream for banks.

Fees: These are the fees that your bank charges you, including ATM fees, overdraft fees, late payment fees, penalty fees, etc. The average household in the US ends up paying over \$200 annually in overdraft and bounced check fees alone. Along with interchange, these fees add up to more than 50% of revenue for large banks.

Its important to understand that all this revenue is a real cost to the customer. Some of it may be an explicit cost, when its a fee that shows up on your statement. But even the implicit costs of interchange and net interest margin are real; after all, merchants pass the cost of interchange on to consumers in the form of higher prices, and you could be making 3% interest on your money by buying treasury bonds, which are safer than any bank. By leaving it in the bank at a lower interest rate, you are effectively paying the bank to hold your money.

With the most recent banking crisis, a handful of banks now dominate the market. At their scale, basic retail banking is immensely profitable.

Remember a bank is a business like any other business: it strives to make as much money as possible.

What actually happens, is that a savings account is actually a loan, except this time you’re the lender. It’s no different than any other loan, except it’s really flexible: you can lend as much as you want to the bank and get that loan paid back whenever you’d like. Because of this flexibility, though, the interest you make on this loan is pretty low.

A checking account, at most banks, is no different than a savings account: you’re lending the bank your money, but with a checking account, they pay your interest with services (dealing with the checks you write, etc.) instead of interest.

So, each dollar you put into your account with the bank makes them a little bit of money.

Let's say, for example, that the bank has a savings account with a 1.5% rate of return. They take the money from your account (and a lot of other savings accounts) and use all of that money to buy (for example) a treasury note, which is guaranteed by the federal government and returns about 5%.

Even better, let's say that someone else comes into the bank and wants to borrow some money for a car. The bank offers to lend them the money for the car at 7% return, so they take that money from the accounts at the bank and give it to the borrower. Then, the borrower pays back that money plus the interest, of which they pass on 1.5% to you, keeping 5.5% for themselves.

To summarize, a bank works by paying people small amounts to lend them money, then lending that money onto others for larger amounts. They manage that whole process, and then keep the difference between the large amount (interest on loans) and small amount (interest from a savings account).

Chapter 4

Inflation

Inflation is primarily caused by an increase in the money supply that outpaces economic growth.

Ever since industrialized nations moved away from the gold standard during the past century, the value of money is determined by the amount of currency that is in circulation and the public's perception of the value of that money. When the Federal Reserve decides to put more money into circulation at a rate higher than the economy's growth rate, the value of money can fall because of the changing public perception of the value of the underlying currency. As a result, this devaluation will force prices to rise due to the fact that each unit of currency is now worth less.

In 1980 in the United States – just over 30 years ago – a new home in

this country cost an average of \$76,000, and the median income was \$17,710 per year. Compare that to 2011, when even after the recent recession, the median home price stood at \$139,000, and median household income was \$50,233 per year according to the US Census Bureau.

Why the vast difference in prices? One word: Inflation. Like aging or weight gain, the effects of inflation are both gradual and profound. Inflation creeps up on us over time, and as we continue our normal spending and consumption habits, the almost imperceptible increase of consumer prices doesn't seem to make a huge difference in our day to day finances – which means it is all too often vastly underestimated.

But the effects of inflation are huge. And it doesn't just affect areas like our salaries and the cost of purchasing a new home. Inflation hits us from every angle. Food prices go up, transportation prices increase, gas prices rise, and the cost of various other goods and services skyrocket over time

To put it simply, inflation is the long term rise in the prices of goods and services caused by the devaluation of currency.

Inflationary problems arise when we experience unexpected inflation which is not adequately matched by a rise in people's incomes. If incomes do not increase along with the prices of goods, everyone's purchasing power has been effectively reduced, which can in turn lead to a slowing or stagnant economy.

All of these factors make it absolutely essential that it account for the huge impacts that inflation can have on our long-term savings and ability to fund your golden years of retirement.

One way of looking at the money supply effect on inflation is the same way collectors value items. The rarer a specific item is, the more valuable it must be. The same logic works for currency; the less currency there is in the money supply, the more valuable that currency will be. When a government decides to print new currency, they essentially water down the value of the money already in circulation. A more macroeconomic way of looking at the negative effects of an increased money supply is that there will be more dollars chasing the same amount of goods in an economy, which will inevitably lead to increased demand and therefore higher prices.

National Debt can also cause inflation. We all know that high national debt is a bad thing, but did you know that it can actually drive inflation to higher levels over time? The reason for this is that as

a country's debt increases, the government has two options: they can either raise taxes or print more money to pay off the debt.

A rise in taxes will cause businesses to react by raising their prices to offset the increased corporate tax rate. Alternatively, should the government choose the latter option, printing more money will lead directly to an increase in the money supply, which will in turn lead to the devaluation of the currency and increased prices as discussed earlier.

Similarly, demand-pull effect which states that as wages increase within an economic system (often the case in a growing economy with low unemployment), people will have more money to spend on consumer goods. This increase in liquidity and demand for consumer goods results in an increase in demand for products. As a result of the increased demand, companies will raise prices to the level the consumer will bear in order to balance supply and demand which result in inflation.

An example would be a huge increase in consumer demand for a product or service that the public determines to be cheap. For instance, when hourly wages increase, many people may determine to undertake home improvement projects. This increased demand for home improvement goods and services will result in price increases by house-painters, electricians, and other general contractors in order to offset the increased demand. This will in turn drive up prices across the board.

Another factor in driving up prices of consumer goods and services is explained by an economic theory known as the cost-push effect. Essentially, this theory states that when companies are faced with increased input costs like raw goods and materials or wages, they will preserve their profitability by passing this increased cost of production onto the consumer in the form of higher prices.

On a day-to-day basis, we as consumers may not care what the exchange rates between our foreign trade partners are, but in an increasingly global economy, exchange rates are one of the most important factors in determining our rate of inflation.

When the exchange rate suffers such that a local currency becomes less valuable relative to foreign currency, this makes foreign commodities and goods more expensive to consumers while simultaneously making goods, services, and exports cheaper to consumers overseas.

This exchange rate differential between our economy and that of our

trade partners can stimulate the sales and profitability of corporations by increasing their profitability and competitiveness in overseas markets. But it also has the simultaneous effect of making imported goods more expensive to consumers.

Strategies to Combat Inflation's Effects

If you are planning to retire in 2050, a rate of inflation approximating 3% per year will result in \$1 million dollars having the purchasing power of \$325,000 of today's dollars. How long will \$325,000 carry you? If your current cost of living is around \$50,000 a year, you can see that \$1 million will only carry you through about 6 years in retirement assuming you do not have supplemental sources of income.

So, what can be done to combat inflation's detrimental effects on savings and adjust your portfolio for inflation? Contrary to public belief or opinion, we aren't helpless in combating the role inflation can play in our lives. Many strategies can act as a hedge against inflation, but these techniques must be employed strategically and effectively in order to take advantage of their benefits. The best ways to combat inflation are as follows:

Gold, silver, and other precious metals, like commodities, have an inherent value that allows them to remain immune to inflation. In fact, gold used to be the preferred form of currency before the move to paper currency took place.

Moreover, real estate has historically offered an inflationary hedge. The old saying goes: "land is the one thing they aren't making any more of." Investing in real estate provides a real asset. In addition, rental property can offer the landlord the option of increasing rent prices over time to keep pace with inflation.

Plus, there's the added alternative of the ability to sell the real assets in the open market for what normally amounts to a return that generally keeps pace with or outstrips inflation.

Commodities, like oil, have an inherent worth that is resilient to inflation. Unlike money, commodities will always remain in demand and can act as an excellent hedge against inflation. You can consider commodity-based Exchange Traded Funds (ETFs) which offer the liquidity of stocks with the inflation hedging power of commodity investment. Just be careful of and watch out for the problems of ETFs.

Although investing in bonds may feel safer, historically, bonds have failed to outpace inflation, and have at times been crushed during hyper-inflationary periods. Over the long term, the only source of inflation-beating returns has been the stock market. Equities have historically beat bonds because of the ability of corporations to pass price increases along to their consumers, resulting in higher income

and returns for both the company and its investors.

Dividend stocks on the other hand, offer a hedge against inflation because dividends normally increase on an annual basis at a rate which outpaces that of inflation. This almost guarantees stock price appreciation at a similar pace, while offering the further benefit of compounding when dividends are reinvested. Exhaustive research by Wharton School of Business economist Jeremy Siegel reveals that large cap, dividend paying stocks have provided an inflation-adjusted 7% per year return in every period greater than 20 years since 1800. If you have the investment risk tolerance for the volatility and a time horizon of greater than 20 years, consider dividend-paying securities.

Over the long term, equities have been among the best hedges against inflation. At close on Dec. 12, 1980, a share of Apple Inc. (AAPL) cost \$29 in current (not inflation-adjusted) dollars. According to Yahoo Finance, that share would be worth \$7,035.01 at close on Feb. 13, 2018, after adjusting for dividends and stock splits. The Bureau of Labor Statistics' (BLS) CPI calculator gives that figure as \$2,449.38 in 1980 dollars, implying a real (inflation-adjusted) gain of 8,346%.

You can also combat inflation by buying and selling collectibles. This can actually offer great inflation-adjusted returns, while also being a fun and interesting hobby.

The strategic acquisition of photography, paintings, sculptures and other art can often provide inflation-beating returns, though certainly not always. Find the best of both worlds, a valuable piece of fine art that you truly appreciate and will not be in a hurry to sell.

The fact is that you are probably going to need a lot more money as you grow older than you think you will. There are two ways to get to your new benchmark: Save more, or invest more aggressively.

In order to beat inflation, you can also consider TIPS. Treasury Inflation Protected Securities (TIPS) are guaranteed to return your original investment along with whatever inflation was during the lifetime of the TIPS. But TIPS do not offer the opportunity for significant capital appreciation, and therefore should only make up a portion of your personal investment portfolio allocation.

Like it or not, inflation is real. Ignoring the effects that inflation can and will have on your long-term savings is probably one of the biggest mistakes that many investors make. Understanding the detrimental causes and effects of inflation is the first step to making long-term decisions to mitigate the risks.

Each month, the Bureau of Labor Statistics (BLS) publishes a press release that reports recent changes in the CPI by product category and

for several large metropolitan areas in the United States. Another measure of inflation is the Personal Consumption Expenditure Chain Price Index or PCE Price Index. The PCE price index is published by the Bureau of Economic Analysis and measures inflation across the basket of goods purchased by households.

The September 1999 Ask Dr. Econ question notes that inflation is commonly measured by "either a Gross Domestic Product Deflator (GDP Deflator) or a Consumer Price Index (CPI) indicator. The GDP Deflator is a broad index of inflation in the economy; the CPI Index measures changes in the price level of a broad basket of consumer products."

The sharp rise in the price of imported oil during the 1970s provides a typical example of cost-push inflation. Rising energy prices caused the cost of producing and transporting goods to rise. Higher production costs led to a decrease in aggregate supply and an increase in the overall price level.

While the differences in inflation noted above may seem simple, the cause of price level changes observed in the real economy are often much more complex. In a dynamic economy it can be especially difficult to isolate a single cause of a change in the price level.

In the 1980s, the UK experienced rapid economic growth. The government cut interest rates and also cut taxes. House prices rose by up to 30% - fuelling a positive wealth effect and a rise in consumer confidence. This increased confidence led to higher spending, lower saving and an increase in borrowing. However, the rate of economic growth reached 5% a year – well above the UK's long-run trend rate of 2.5 %. The result was a rise in inflation as firms could not meet demand. It also led to a current account deficit.

In 2011/12, the UK experienced a rise in cost-push inflation, partly due to the depreciation of the Pound against the Euro.

Conversely, rising house prices do not directly cause inflation, but they can cause a positive wealth effect and encourage consumer-led economic growth. This can indirectly cause demand-pull inflation.

There are five circumstances that create demand-pull inflation. The first is a growing economy. As people get better jobs and become more confident, they spend more.

As prices rise, they start to expect inflation. That expectation motivates consumers to spend more now to avoid future price increases.

That further boosts growth. For this reason, a little inflation is good. As a result, the Federal Reserve sets an inflation target to manage the

public's expectation of inflation. It's at 2 percent as measured by the core inflation rate. The core rate removes the effect of seasonal food and energy cost increases.

The third circumstance is discretionary fiscal policy. The government's ability to spend more or tax less increases demand in some areas of the economy.

Marketing and new technology create demand-pull inflation for specific products or asset classes. The asset inflation that results can drive widespread price increases. Asset and wage inflation are types of inflation.

Over-expansion of the money supply can also create demand-pull inflation. The money supply is not just cash, but also credit, loans, and mortgages. When the money supply expands, it lowers the value of the dollar. When the dollar declines relative to the value of foreign currencies, the prices of imports rise. In the long run, it can also trigger cost-push inflation. Companies that import materials may need to raise their prices to cover the increased cost of their supplies.

How does the money supply increase?

Through expansionary fiscal policy or expansionary monetary policy. The federal government executes expansionary fiscal policy. It expands the money supply through either deficit spending or printing more cash. Deficit spending pumps money into certain segments of the economy. It creates demand-pull inflation in that area. It delays the offsetting taxes and adds it to the debt. It has no ill effect until the ratio of debt to gross domestic product approaches 90 percent.

The Federal Reserve controls expansionary monetary policy. It expands the money supply by creating more credit with the use of its many tools. One tool is lowering the reserve requirement. It's the amount of funds banks must keep on hand at the end of each day. The less they have to keep on reserve, the more they can lend.

There are five contributors to inflation on the supply side also known as cost-push inflation.

The first is wage inflation that increases salaries. It rarely occurs without active labor unions.

A company with the ability to create a monopoly is a second contributor to cost-push inflation. That's because it controls the supply of a good or service. The Sherman Anti-Trust Act outlawed monopolies in 1890.

Natural disasters create temporary cost-push inflation by damaging production facilities. That's what happened to oil refineries after Hurricane Katrina. The depletion of natural resources is a growing

cause of cost-push inflation. For example, overfishing reduces the supply of seafood and drives up prices.

Government regulation and taxation also reduce supplies. In 2008, subsidies to produce corn ethanol reduced the amount of corn available for food. This shortage created food price inflation.

When a country lowers its currency's exchange rates, it creates cost-push inflation in imports. That makes foreign goods more expensive compared to locally produced goods.

In most cases, the urge to spend and invest in the face of inflation tends to boost inflation in turn, creating a potentially catastrophic feedback loop. As people and businesses spend more quickly in an effort to reduce the time they hold their depreciating currency, the economy finds itself awash in cash no one particularly wants. In other words, the supply of money outstrips the demand, and the price of money – the purchasing power of currency – falls at an ever-faster rate.

When things get really bad, a sensible tendency to keep business and household supplies stocked rather than sitting on cash devolves into hoarding, leading to empty grocery store shelves. People become desperate to offload currency, so that every payday turns into a frenzy of spending on just about anything so long as it's not ever-more-worthless money.

Another way of looking at central banks' role in controlling inflation is through the money supply. If the amount of money is growing faster than the economy, money will be worth less and inflation will ensue. That's what happened when Weimar Germany fired up the printing presses to pay its World War I reparations, and when Aztec and Inca bullion flooded Habsburg Spain in the 16th century. When central banks want to raise rates, they generally cannot do so by simple fiat; rather they sell government securities and remove the proceeds from the money supply. As the money supply decreases, so does the rate of inflation.

Wealth

In ordinary language, “Wealth” conveys an idea of prosperity and abundance. A man of wealth is understood as a rich person. But in economics wealth is synonymous with economic goods.

Adam Smith and the other classical economists considered wealth as the central issue of the study of economics. According to them economics studies the principles of term of the following aspects of wealth.

In short, Wealth means anything which has value.

Therefore, three attributes of wealth as in the case of value are utility, scarcity and marketability. Thus, any valuable good which is able to satisfy human want, which is scale and can be transferred, is wealth.

It should be noted that Money is form of wealth. All money is wealth but all wealth is not money.

Even though, income is different than wealth. Wealth yields income.

Wealth and welfare are closely inter-related. Wealth is the means and welfare and end.

The Four Types Of Wealth

Research shows that families that have sustained wealth over more than three generations often have a different view and definition of wealth. These successful families see wealth from four different perspectives, of which money is only one. They are Human Capital, Social Capital, Cultural Capital And Financial Capital.

Human Capital: This is a term popularized by Gary Becker, an economist and Nobel Laureate from the University of Chicago, and Jacob Mincer. It is also worth mentioning the contributions of Theodore Schultz to this theory. The human capital theory refers to the stock of knowledge, habits, social and personality attributes, including creativity, embodied in the ability to perform labor so as to produce economic value. The subject is closely associated with the study of human resources management as found in the practice of business administration and macroeconomics. The original idea of human capital can be traced back at least to Adam Smith in the 18th century.

When most people think about asset classes, things like stocks, bonds,

real estate and commodities come to mind. Investment advisors spend countless hours researching the risk/return profiles and correlations of these "common" asset classes, in an attempt to construct efficient investment portfolios for their clients.

However, if you are a young to middle-aged investor, the importance of these asset classes pales in comparison to an asset class called human capital. Human capital is intangible and cannot be directly purchased or sold. For this reason, it does not get much financial press. If you are between the ages of 18 and 50 (or you still act like you are), then you may be interested in what human capital can do for you in addition to how you can use it to grow and protect your financial capital.

When you are young, it is usually the most valuable asset that you own. Human capital is also your best protection against inflation. With a strong professional skill set, you will always command a fair wage, no matter how inflated your local currency becomes.

Anything you do to increase your ability to earn higher future wages could be considered investing in your human capital. The monetary and time-consuming investments that you make early in life, like obtaining a higher education, on-the-job training and learning better social skills can increase your personal human capital.

In the recent literature, the new concept of task-specific human capital was coined in 2004 by Robert Gibbon, an economist at MIT, and Michael Waldman, an economist at Cornell.

Human capital tends to migrate, especially in global economies. That is why you will see a shift of this type of capital from developing places or rural areas to more developed and urban areas.

Can Human Capital Be Calculated

Since human capital is based on investing in the skills and knowledge of employees through education, these investments in human capital can be easily calculated. In most cases managers who oversee human capital (i.e., the HR department) can calculate the total profits before and after any investments are made. Any return on investment (ROI) of human capital can be calculated by dividing the company's total profits by its overall investments in human capital. For example, if Company X invests \$2 million into its human capital and has a total profit of \$15 million, managers can compare the ROI of its human capital year-over-year (YOY) in order to track how profit is improving and whether it has a relationship to the human capital investments.

Social Capital: Social capital consists of the economic resources obtained from the interactions between businesses and individuals or networks of individuals.

Feeling connected, sharing your dreams, finding partners, engaging in your communities, finding solutions, overcoming challenges and making a difference are much more apt to happen with a strong network of quality relationships. The term generally refers to (a) resources, and the value of these resources, both tangible (public spaces, private property) and non-tangible assets, such as information, innovative ideas, and financial support.(b) the relationships among these resources, and (c) the impact that these relationships have on the resources involved in each relationship, and on larger groups. It is generally seen as a form of capital that produces public goods for a common good.

Social capital is vital for businesses across many industries. For example, social capital is essential to the profitability of a company and is crucial for people looking for new employment. Most service professionals acquire new customers through their social networks, and approximately 85% of new jobs are filled through networking.

Companies such as Airbnb and Uber have harnessed social capital to grow their market shares and become major disruptive forces in their industries. Both companies rely on the power of social networks for not only marketing but also for quality control, as users contribute public reviews of provider quality.

Bonding and bridging are the most common forms of social capital. Bonding social capital arises from the connections formed by homogeneous groups, such as employees within a single company, women's groups, or enthusiasts of a specific hobby. Bridging social capital, by contrast, arises when members of diverse groups forge connections to share ideas and information, such as a local police force and a neighborhood association.

Social capital is an important constituent of the prosperity of an economy. Social networks in an organization include the trust among the employees, their satisfaction level with the job and also the quality of communications that take place with the peers, seniors and subordinates.

Strong social networking, coupled with efficient performance, signifies a healthy state of affair.

Social capital might have its share of pros and cons, but if it is utilized properly, it can pave the way for prosperity.

Cultural Capital: Did you know that you have cultural capital? We all do. We all have different skills, tastes in music, and life experiences, to name a few. So why is cultural capital important? Our cultural capital gives us power. It helps us achieve goals, become successful, and rise up the social ladder without necessarily having wealth or financial capital.

Cultural capital is having assets that give us social mobility. These assets are both tangible and intangible, as with skills and music taste; but importantly, they are not related to income, net worth, or any financial measure. Cultural capital falls into three categories: institutionalized (education or specialized knowledge), embodied (personality, speech, skills), and objectified (clothes or other belongings). Given these varied elements, cultural capital is difficult to measure objectively.

The concept of cultural capital originated in the work of Pierre Bourdieu, who defined it as high cultural knowledge that ultimately redounds to the owner's financial and social advantage. An example would be knowing how to "dress for success." This cultural knowledge can pay off. Although they naturally seek competent personnel, employers also prefer executives who dress, talk, and comport themselves in accordance with their elite status.

The acquisition of high cultural knowledge and style, including stylish dress, table manners, golf, knowledge of wine, the right neighborhood, and arty chit-chat, represents a capital resource of the owner, vested in the owner. Human capital and cultural capital go together because people who have one usually have the other as well, but the two capitals are in principle distinct. Anyone may have human capital without cultural capital, or cultural capital without human capital. In principle, adults might acquire cultural capital by hiring a tutor.

Embodied cultural capital comprises the knowledge that is consciously acquired and then passively inherited, by socialization to culture and tradition. Unlike property, cultural capital is not transmissible, but is acquired over time, as it is impressed upon the person's habitus (character and way of thinking), which, in turn, becomes more receptive to similar cultural influences. Linguistic cultural capital for example, is the mastery of language and its relations; the embodied cultural capital, which is a person's means of communication and self-presentation, acquired from the national culture.

Objectified cultural capital comprises the person's property (e.g. a work of art, scientific instruments, etc.) that can be transmitted for economic profit (buying-and-selling) and for symbolically conveying the possession of cultural capital facilitated by owning such things.

Yet, whilst possessing a work of art (objectified cultural-capital) the person can consume the art (understand its cultural meaning) only with the proper conceptual and historical foundations of prior cultural-capital. As such, cultural capital is not transmitted in the sale of the work of art, except by coincidental and independent causation, when the seller explains the artwork's significance to the buyer.

Institutionalized cultural capital comprises an institution's formal recognition of a person's cultural capital, usually academic credentials or professional qualifications. The greatest social role of institutionalized cultural-capital is in the labor market (a job), where it allows the expression of the person's array of cultural capital as qualitative and quantitative measurements (which are compared against the measures of cultural capital of other people). The institutional recognition facilitates the conversion of cultural capital into economic capital, by serving as a heuristic (practical solution) with which the seller can describe his or her cultural capital to the buyer.

Financial Capital: The most typical, but also the most narrow, definition of wealth is financial capital.

Financial capital, on the other hand, is measured in numbers, be it in terms of net worth or some other monetary metric. For example, Bill Gates, the Founder of Microsoft, was worth \$79.7 billion dollars in May of 2015, topping a list of the world's billionaires. This calculation is based not only on his wealth, but on the monetary value of his other possessions: stocks, retirement accounts, houses, and art. In addition to financial capital, however, Bill Gates also has cultural capital. He has used his wealth, knowledge, and skills such that in 2014, he ranked seventh in a list of the most powerful people in the world. Cultural capital, unlike financial capital, is measured by how much value society places on non-financial assets, and we can use those assets to move up the social ladder. You don't have to be Bill Gates to have cultural capital, however, as income or net worth is not always linked to cultural capital.

Money is important. Not the most important thing in life but very important. It absolutely makes life easier and better. Money allows you to live in a nicer community, take beautiful vacations and provide well for those you love.

In economics jargon, capital can also refer to the machines, factories and other tools used to create final, or consumer, goods. Capital goods are not directly sold for money, so they usually require elements of investment and risk to accumulate and use.

Money raised from debt and equity issues is normally referred to as capital. Economic capital is the estimated amount of money needed to cover possible losses from unexpected risk.

Financial Capital and Its Subcategories:

Financial capital is a much broader term than economic capital. In a sense, anything can be a form of financial capital as long as it has a money value and is used in the pursuit of future revenue. Most investors encounter financial capital with respect to debt and equity.

Direct investment in a business is referred to as equity. When someone contributes \$100,000 to a business in the hopes of receiving a portion of future profits, he increases its equity capital by \$100,000. Equity capital is not typically accompanied by a guarantee of future returns.

Sometimes a business decides to finance its activities through debt instead of equity. Debt capital does not dilute ownership and does not entitle the creditor to a proportional share of future profits. However, debt represents a legal claim on the assets of the borrowing company and is considered riskier than equity capital.

Characteristics of Wealth

Anything to be considered wealth should possess the following characteristics:

It must possess utility: That is, it must have the power to satisfy a want. It must be desirable.

It must be limited in supply. For example, air, sunshine are all essential for life.

In fact, man cannot live without them. They possess great utility but they are not considered wealth because they are available in large quantities. Their supply is not limited. In other words, there is no scarcity of those goods. Such goods are known as free goods.

It should be transferable: It must be possible for us to transfer the ownership of such economic goods, which form wealth, from one person to another. For example, take a land. Land is wealth. For it has money value. If I pay some money and buy it, I can transfer the ownership rights of the land in my name.

It must have money value: It may be external. For example, the goodwill of a business is external wealth. Certain firms enjoy a lot of goodwill of the customers. The copyright of a book is another example of the point that wealth is external. Thus utility, scarcity and transferability are the important characteristics of wealth. Because an

economic good possesses utility and is scarce in relation to demand and is capable of being transferred from one person to another, it has money value and so it is considered as wealth.

Chapter 6

Investment

It's actually pretty simple: investing means putting your money to work for you—actually, it's a different way to think about how to make money. Growing up, most of us were taught that you can earn an income only by getting a job and working. And so that's what most of us do. But there's a limit to how much we can work and how much money we make out of it—not to mention the fact that having a bunch of money is no fun if we don't have the leisure time to enjoy it.

An investment makes money in one of two ways: By paying out income, or by increasing in value to other investors.

Income comes in the form of interest payments, in the case of a bond, or dividends, in the case of stock. Interest payments on bonds are meant to be steady and reliable—when a bond doesn't meet its payments, it is in default. Stock dividends can and do vary. A company has no legal obligation to pay out a dividend, and may have to cut it if earnings fall. On the other hand, unlike with a bond, businesses can raise their dividends when times are good.

Most investments are also traded on the market, so that means their value, if you tried to sell them, can rise or fall every day. The most familiar example is with stocks: If other investors see good prospects for higher company earnings or fatter dividends, they may push the price of the stock upwards. Or they may just sense that other investors are feeling more optimistic, and buy simply on the hopes of riding an ebullient market. Likewise, bad news or investors' bad moods can force prices down.

So, since you cannot create a duplicate of yourself to increase your working time, you need to send an extension of yourself—your money—to work. That way, while you are putting in hours on a daily basis, sleeping, reading the paper, or socializing with friends, you can also be earning money elsewhere. Quite simply, making your money work for you maximizes your earning potential.

There are many different ways you can go about making an investment. This includes putting money into real estate, gold, stocks, bonds, mutual funds, etc. The point is that no matter the method you choose to invest, the goal is always to put your money to work so it earns you an additional profit. Even though this is a simple idea, it's the most important concept for you to understand.

Investing is NOT gambling. Gambling is putting money at risk by betting on an uncertain outcome with the hope that you might win money. Part of the confusion between investing and gambling, however, may come from the way some people use investment vehicles. For example, it could be argued that buying a stock based on a friend's advice and not an expert is essentially the same as placing a bet at a casino.

A 'real' investor does not simply throw his or her money at any random investment; he or she performs thorough analysis and commits capital only when there is a reasonable expectation of profit. There still is risk, and there are no guarantees, but investing is more than simply hoping luck is on your side.

What is an 'Investment Vehicle'?

An investment vehicle is a product used by investors with the intention of gaining positive returns. Investment vehicles can be low risk, such as certificates of deposit (CD) or bonds, or carry a greater degree of risk such as with stocks, options and futures. Other types of investment vehicles include annuities; collectibles, such as art or coins; mutual funds; and exchange-traded funds (ETFs).

BREAKING DOWN 'Investment Vehicle'

Investment vehicle refers to any method by which individuals or businesses can invest and, ideally, grow their money. There is a wide variety of investment vehicles, and many investors choose to hold at least several types in their portfolios. This can allow for diversification while minimizing risk.

Types of Investment Vehicles

The different types of investment vehicles are subject to regulation in the jurisdiction in which they are provided. Each type has its own

risks and rewards. Deciding which vehicles fit particular portfolios depends on the investor's knowledge of the market, skills in financial investing, financial goals and current financial standing.

Ownership Investments: Investors who delve into ownership investments own particular assets they expect to grow in value. Ownership investments include stocks, real estate, precious objects and businesses.

Stocks, also called equity or shares, give investors a stake in a company and its profits and gains.

Real estate owned by investors can be rented or sold to provide higher net profits for the owner.

Precious objects such as collectibles, art and precious metals are considered ownership investments if they are sold for a profit.

Capital used to build businesses that provide products and services for profit is another type of ownership investment.

Lending Investments: With lending investments, people allow their money to be used by another person or entity with the expectation it will be repaid with profits. This type of investment is generally low risk and provides low rewards. Examples of lending investments include bonds, certificates of deposit (CDs) and Treasury Inflation-Protected Securities (TIPS).

Investors investing in bonds allow their money to be used by corporations or the government with the expectation it will be paid back with profit after a set period of time with a fixed interest rate.

Certificates of deposit (CDs) are offered by banks. A CD is a promissory note provided by banks that locks the investor's money in a savings account for a set period of time for a higher interest rate.

Pooled Investment Vehicles: When multiple investors bring their money together to gain certain advantages they would not have as individual investors, it is known as a pooled investment vehicle. These can include mutual funds, pension funds, private funds, unit investment trusts (UITs) and hedge funds.

In a mutual fund, a professional fund manager chooses the type of stocks, bonds and other assets the fund will invest in on half of clients, who are charged a fee.

Private funds generally encompass pooled investment vehicles such as hedge funds and private equity funds and are not considered investment companies by the Securities and Exchange Commission (SEC).

There are many different types of investments that you can put your

money in including Gold, real estate, bonds, and stocks etc.

Chapter 7

Investing In Gold

First, you can invest in gold. But keep this in mind, gold is a commodity — so if you are investing in gold, be aware that your protection against a price drop, your moat, is based on scarcity. Gold is a dense, soft, shiny, malleable, and ductile metal. The English word gold comes from the words gulb and ghel referring also to the color. It is the only metal of this color. The gold's characteristic yellow color is due to the arrangement of its electrons. When alloyed with other metals like silver and copper it has different colors, according to the percentages of the alloy

Why is gold so valuable?

Gold, like no other metal, has a fascinating history and a special place in the world. For thousands of years it has been used as an ornament of kings, a currency and standard for global currencies, in competitions as symbol of victory and more recently, in a wide range of electronic devices and medical applications. Ancient civilizations used gold for the decoration of tombs and temples. In modern days FMI and WB suggested the use of gold as monetary reference, i.e., the value of a bill guarantees a given amount of gold. In sports the winner

gets a gold medal.

The mentioned characteristics are enough to make a very useful and desired metal; thus, a very valuable one. Besides, it is important to consider that gold is rather scarce. It is estimated that the whole gold of the planet equals a total of 168,180 tonnes or 5,407,112,558 ounces.

Of all the precious metals, gold is the most popular as an investment. Investors generally buy gold as a way of diversifying risk, especially through the use of futures contracts and derivatives. The gold market is subject to speculation and volatility as are other markets. Compared to other precious metals used for investment, gold has the most effective safe haven and hedging properties across a number of countries.

When you purchase Precious Metals, you are buying an asset valued since ancient times. Recognized viscerally by humans, Gold always has been and always will be a viable investment and commodity. But why? What makes Gold a good investment now? Why is buying physical Gold a good idea today? Let's examine what makes buying physical Gold an excellent investment and collecting opportunity.

Gold has been used throughout history as money and has been a relative standard for currency equivalents specific to economic regions or countries, until recent times. Many European countries implemented gold standards in the latter part of the 19th century until these were temporarily suspended in the financial crises involving World War I. After World War II, the Bretton Woods system pegged the United States dollar to gold at a rate of US\$35 per troy ounce. The system existed until the 1971 Nixon Shock, when the US unilaterally suspended the direct convertibility of the United States dollar to gold and made the transition to a fiat currency system. The last major currency to be divorced from gold was the Swiss Franc in 2000.

Furthermore, gold is traded continuously throughout the world based on the intra-day spot price, derived from over-the-counter gold-trading markets around the world (code "XAU").

Central banks and the International Monetary Fund play an important role in the gold price. At the end of 2004, central banks and official organizations held 19% of all above-ground gold as official gold reserves.

It is generally accepted that the price of gold is closely related to interest rates. As interest rates rise, the general tendency is for the gold price, which earns no interest, to fall, and vice versa. As a result, the gold price can be closely correlated to central banks via their monetary policy decisions on interest rates. For example, if market

signals indicate the possibility of prolonged inflation, central banks may decide to raise interest rates, which could reduce the price of gold. But this does not always happen: after the European Central Bank raised its interest rate slightly on April 7, 2011, for the first time since 2008, the price of gold drove higher, and hit a new high one day later. Similarly, in August 2011 when interest rates in India were at their highest in two years, the gold prices peaked as well.

The price of gold can also be influenced by a number of macroeconomic variables. Such variables include the price of oil, the use of quantitative easing, currency exchange rate movements and returns on equity markets.

The most traditional way of investing in gold is by buying bullion gold bars. In some countries, like Canada, Austria, Liechtenstein and Switzerland, these can easily be bought or sold at the major banks. Alternatively, there are bullion dealers that provide the same service. Bars are available in various sizes. For example, in Europe, Good Delivery bars are approximately 400 troy ounces (12 kg).[38] 1 kilogram (32 ozt) are also popular, although many other weights exist, such as the 10oz, 1oz, 10 g, 100 g, 1 kg, 1 Tael, and 1 Tola.

Bars generally carry lower price premiums than gold bullion coins. However larger bars carry an increased risk of forgery due to their less stringent parameters for appearance. While bullion coins can be easily weighed and measured against known values to confirm their veracity, most bars cannot, and gold buyers often have bars re-assayed. Larger bars also have a greater volume in which to create a partial forgery using a tungsten-filled cavity, which may not be revealed by an assay. Tungsten is ideal for this purpose because it is much less expensive than gold, but has the same density (19.3 g/cm³).

Good delivery bars that are held within the London bullion market (LBMA) system each have a verifiable chain of custody, beginning with the refiner and assayer, and continuing through storage in LBMA recognized vaults. Bars within the LBMA system can be bought and sold easily. If a bar is removed from the vaults and stored outside of the chain of integrity, for example stored at home or in a private vault, it will have to be re-assayed before it can be returned to the LBMA chain. This process is described under the LBMA's "Good Delivery Rules".

The LBMA "traceable chain of custody" includes refiners as well as vaults. Both have to meet their strict guidelines. Bullion products from these trusted refiners are traded at face value by LBMA members without assay testing. By buying bullion from an LBMA member dealer and storing it in an LBMA recognized vault, customers avoid the need of re-assaying or the inconvenience in time and expense it

would cost. However this is not 100% sure, for example, Venezuela moved its gold because of the political risk for them, and as the past shows, even in countries considered as democratic and stable, for example in the USA in the 1930s gold was seized by the government and legal moving was banned.

Gold coins are a common way of owning gold. Bullion coins are priced according to their fine weight, plus a small premium based on supply and demand (as opposed to numismatic gold coins, which are priced mainly by supply and demand based on rarity and condition).

The sizes of bullion coins range from one-tenth of an ounce to two ounces, with the one-ounce size being most popular and readily available.

Gold, like all precious metals, may be used as a hedge against inflation, deflation or currency devaluation. A unique feature of gold is that it has no default risk

As there is a finite amount of Gold in the world, Gold's relative purchasing power tends to remain stable during periods of inflation. Physical Gold adds security to your investment portfolio. For example, in 1985, the cost of an ounce of Gold was about the cost of a nice men's suit. Allowing for some peaks and valleys in the market, today, one ounce of Gold still costs about the same as a nice men's suit, even though the price in dollars has nearly quadrupled. Gold prices do fluctuate, but they generally move independent of the stock market. For a stable investment independent of stocks and bonds that can protect your purchasing power long term, buy physical Gold.

As already mentioned, the market for Precious Metals generally moves independent from stocks and bonds. If you buy physical Gold, you can balance your portfolio so you need not fear the NYSE. In an economic slowdown, your Precious Metals may provide a comforting, stable point among your investments. You can easily look up historical Gold prices to see this balance for yourself.

Additionally, Gold is recognized over the world as carrying intrinsic value. If you wish to sell or trade your Gold in the future, you know there will always be a market for it. If you wish to endow your loved ones with a tangible inheritance, you know that Gold will only be more valuable in another lifetime. You might buy physical Gold for any or all of these reasons.

Now that you understand why buying Gold is a good use of your investment dollar, you may need guidance regarding how to buy physical Gold. Luckily, buying physical Gold is simple. If you choose an established, well-regarded Precious Metals company, you can buy

with confidence. Buying physical Gold should be an enjoyable part of your investment journey. A common first purchase is the Gold American Eagle, one of the most popular Gold bullion items with investors.

Why Buy Silver too?

Silver was the first metal used as currency more than 4,000 years ago, when Silver ingots were used in trading. When you purchase Silver, you are buying an asset valued since ancient times. Recognized innately by humans as valuable, Silver has always been a viable investment and commodity. But what makes Silver a good investment now? Why is buying physical Silver a good idea today? Let's examine what makes buying physical Silver a great investment and collecting opportunity.

As there is a finite amount of Silver in the world, Silver's relative purchasing power tends to remain stable. For example, in 1985, the cost of an ounce of Silver would just about buy two movie tickets. Allowing for some peaks and valleys in the market, today, one ounce of Silver costs slightly less than a pair of movie tickets while the price in dollars has tripled. Silver prices do fluctuate, but they generally move independent of the stock market. If you want a stable investment that can protect your purchasing power long term, consider buying Physical Silver.

Similar to the function of Gold in an investment portfolio, Silver can provide balance to your investments. Because Silver prices move independent of stocks and bonds, physical Silver may be the stable element your portfolio needs in the event of a downturn.

Additionally, Silver is recognized the world over as carrying intrinsic value. If you would consider selling or trading your Silver anywhere, at any time, you know there will always be a market for it.

Chapter 8

Investing In Real Estate

Real estate is a great investment for many reasons. You can enjoy an excellent rate of returns, amazing tax advantages and leverage real

estate to build your wealth.

Real estate also provides better returns than the stock market without as much volatility.

Historically in real estate, your risk of loss is minimized by the length of time you hold on to your property. When the market improves, so does the value of your home, and as a result, you build equity. The risk never changes in the stock market and there are numerous factors beyond your control that can negatively impact your investment. Real estate gives you more control of your investment because your property is a tangible asset that you can leverage to capitalize on numerous revenue streams, while enjoying capital appreciation.

Real estate has a high tangible asset value.

There will always be value in your land, and value in your home. Other investments can leave you with little to no tangible asset value such as a stock which can dip to zero, or a new car which decreases in value over time. Home owners insurance will protect your investment in real estate, so be sure to get the best policy available so your asset is protected in the worst-case scenario.

Real estate values will always increase over time. History continues to prove that the longer you hold onto your real estate, the more money you will make. The housing market has always recovered from past bubbles that caused home appreciation to slip, and for those who held on to their investments during those uncertain times, prices have returned to normal, and appreciation is back on track. Now, real estate investors in the top performing markets are enjoying a windfall.

An investment in real estate can also diversify your portfolio.

If you've ever spoken to a financial planner about investing, then you are very aware of the importance of diversification. When you diversify your portfolio, you spread out the risk. Real estate will always serve as a safe tangible asset to mitigate the risk in your portfolio. Many have amassed wealth by solely investing in real estate.

You can get tax deductions on mortgage interest, cash flow from investment properties, operating expenses and costs, property taxes, insurance and depreciation (even if the property gains value) and other benefits.

Improvement of realty property as part of a real estate investment strategy is generally considered to be a sub-specialty of real estate investing called real estate development. Real estate is an asset form with limited liquidity relative to other investments, it is also capital intensive and is highly cash flow dependent. If these factors are not

well understood and managed by the investor, real estate becomes a risky investment. The primary cause of investment failure for real estate is that the investor goes into negative cash flow for a period of time that is not sustainable, often forcing them to resell the property at a loss or go into insolvency. A similar practice known as flipping is another reason for failure as the nature of the investment is often associated with short term profit with less effort.

Real estate markets in most countries are not as organized or efficient as markets for other, more liquid investment instruments. Individual properties are unique to themselves and not directly interchangeable, which presents a major challenge to an investor seeking to evaluate prices and investment opportunities. For this reason, locating properties in which to invest can involve substantial work and competition among investors to purchase individual properties may be highly variable depending on knowledge of availability. Information asymmetries are commonplace in real estate markets. This increases transactional risk, but also provides many opportunities for investors to obtain properties at bargain prices. Real estate entrepreneurs typically use a variety of appraisal techniques to determine the value of properties prior to purchase.

Typical sources of investment properties include:

Market listings (through a Multiple Listing Service or Commercial Information Exchange)

Real estate agents and Real estate brokers

Banks (such as bank real estate owned departments for REO's and short sales)

Government entities (such as Fannie Mae, Freddie Mac and other government agencies)

Public auction (foreclosure sales, estate sales, etc.)

Private sales (transactions for sale by owner For sale by owner)

Real estate wholesalers and investors (flipping)

Once an investment property has been located, and preliminary due diligence (investigation and verification of the condition and status of the property) completed, the investor will have to negotiate a sale price and sale terms with the seller, then execute a contract for sale. Most investors employ real estate agents and real estate attorneys to assist with the acquisition process, as it can be quite complex and improperly executed transactions can be very costly. During the acquisition of a property, an investor will typically make a formal offer to buy including payment of "earnest money" to the seller at the

start of negotiation to reserve the investor's rights to complete the transaction if price and terms can be satisfactorily negotiated.

This earnest money may or may not be refundable, and is considered to be a signal of the seriousness of the investor's intent to purchase. The terms of the offer will also usually include a number of contingencies which allow the investor time to complete due diligence, inspect the property and obtain financing among other requirements prior to final purchase. Within the contingency period, the investor usually has the right to rescind the offer with no penalty and obtain a refund of earnest money deposits. Once contingencies have expired, rescinding the offer will usually require forfeiture of the earnest money deposits and may involve other penalties as well.

Real estate assets are typically very expensive in comparison to other widely available investment instruments (such as stocks or bonds). Only rarely will real estate investors pay the entire amount of the purchase price of a property in cash. Usually, a large portion of the purchase price will be financed using some sort of financial instrument or debt, such as a mortgage loan collateralized by the property itself. The amount of the purchase price financed by debt is referred to as leverage. The amount financed by the investor's own capital, through cash or other asset transfers, is referred to as equity. The ratio of leverage to total appraised value (often referred to as "LTV", or loan to value for a conventional mortgage) is one mathematical measure of the risk an investor is taking by using leverage to finance the purchase of a property. Investors usually seek to decrease their equity requirements and increase their leverage, so that their return on investment (ROI) is maximized.

Lenders and other financial institutions usually have minimum equity requirements for real estate investments they are being asked to finance, typically on the order of 20% of appraised value. Investors seeking low equity requirements may explore alternate financing arrangements as part of the purchase of a property (for instance, seller financing, seller subordination, private equity sources, etc.)

Predating modern stock markets, real estate is one of the five basic asset classes that every investor should seriously consider adding to his or her portfolio for the unique cash flow, liquidity, profitability, tax, and diversification benefits it offers.

There are four main ways to make money in real estate:

Real Estate Appreciation: This is when the property increases in value. This may be due to a change in the real estate market that increases demand for property in your area. It could use be due to upgrades you put into your real estate investment to make it more attractive to

potential buyers or renters.

Cash Flow Income (Rent): This type of real estate investment focuses on buying a real estate property, such as an apartment building, and operating it so you collect a stream of cash from rent. Cash flow income can be generated from apartment buildings, office buildings, rental houses, and more.

Real Estate Related Income: This is income generated by brokers and other industry specialists who make money through commissions from buying and selling property. It also includes real estate management companies who get to keep a percentage of rents in exchange for running the day-to-day operations of a property.

Ancillary Real Estate Investment Income: For some real estate investments, this can be a huge source of profit. Ancillary real estate investment income includes things like vending machines in office buildings or laundry facilities in low-rent apartments. In effect, they serve as mini-businesses within a bigger real estate investment, letting you make money from a semi-captive collection of customers.

The purest, simplest form of real estate investing is all about cash flow from rents rather than appreciation. Real estate investing occurs when the investor, also known as the landlord, acquires a piece of tangible property, whether that's raw farmland, land with a house on it, land with an office building on it, land with an industrial warehouse on it, or an apartment.

He or she then finds someone who wants to use this property, known as a tenant, and they enter into an agreement. The tenant is granted access to the real estate, to use it under certain terms, for a specific length of time, and with certain restrictions -- some of which are laid out in Federal, state, and local law, and others of which are agreed upon in the lease contract or rental agreement. In exchange, the tenant pays for the ability to use the real estate. The payment he or she sends to the landlord is known as "rent".

For many investors, rental income from real estate investments has a huge psychological advantage over dividends and interest from investing in stocks and bonds. They can drive by the property, see it, and touch it with their hands. They can paint it their favorite color or hire an architect and construction company to modify it. They can use their negotiation skills to determine the rental rate, allowing a good operator to generate higher capitalization rates, or "cap rates."

What Are Some of the Most Popular Ways for a Person to Begin Investing in Real Estate?

There is a myriad of different types of real estate investments a person might consider for his or her portfolio.

Real estate properties are ordinarily categorized into one of the following groups:

Residential real estate investing - These are properties that involve investing in real estate tied to houses or apartments in which individuals or families live. Sometimes, real estate investments of this type have a service business component, such as assisted living facilities for seniors or full-service buildings for tenants who want a luxury experience. Leases usually run for 12 months, give or take six months on either side, leading to a much more rapid adjustment to market conditions than certain other types of real estate investments.

Commercial real estate investing - Commercial real estate investments largely consist of office buildings. These leases can be locked in for many years, resulting in a double-edged sword. When a commercial real estate investment is fully leased with long-term tenants who agreed to richly priced lease rates, the cash flow continues even if the lease rates on comparable properties fall (provided the tenant doesn't go bankrupt). On the other hand, the opposite is true - you could find yourself earning significantly below-market lease rates on an office building because you signed long-term leases before lease rates increased.

Industrial real estate investing - Properties that fall under the industrial real estate umbrella can include warehouses and distribution centers, storage units, manufacturing facilities, and assembly plants.

Retail real estate investing - Some investors want to own properties such as shopping centers, strip malls, or traditional malls. Tenants can include retail shops, hair salons, restaurants, and similar enterprises. In some cases, rental rates include a percentage of a store's retail sales to create an incentive for the landlord to do as much as he, she, or it can to make the retail property attractive to shoppers.

For all the real estate investing options available to investors, the average person is going to get his or her first real estate ownership experience the traditional way: By purchasing a home.

To be more direct, a home isn't an investment in the same way an apartment building is. At its very best, and under the most ideal of circumstances, the safest strategy is to think of a home as a type of forced savings account that gives you a lot of personal use and joy while you reside in it.

On the other hand, if you take a holistic view of your personal wealth, outright ownership of a home (without any debt against it) is one of the best investments a person can make. Not only can the equity be tapped through the use of certain transactions, including reverse

mortgages, but the cash flow saved from not having to rent generally results in net savings -- the profit component that would have gone to the landlord effectively stays in the homeowner's pocket. This effect is so powerful that even back in the 1920s economists were trying to figure out a way for the Federal government to tax the cash savings over renting for debt-free homeowners, considering it a source of income.

This is a different type of investment, though -- something known as a "strategic investment." Were the economy to collapse, as long as you could pay the property taxes and basic upkeep, no one could evict you from your home. Even if you had to grow your own food in a garden, there's a level of personal safety there that matters. There are times when financial returns are secondary to other, more practical considerations.

If you are saving to acquire a home, one of the big mistakes putting their money into the stock market, either through individual stocks or index funds. If you have any chance of needing to tap your money within five years or less, you have no business being anywhere near the stock market. Instead, you should be following an investment mandate known as capital preservation. Here are the best places to invest money you're saving for a down payment.

Chapter 9

Stock Investing

In fact, it's best to treat all of your investment pursuits as a business. Stocks are an equity investment that represents part ownership in a corporation and entitles you to part of that corporation's earnings and assets.

Common stock gives shareholders voting rights but no guarantee of dividend payments.

Preferred stocks, on the other hand, provides no voting rights but usually guarantees a dividend payment.

In the past, shareholders received a paper stock certificate -- called a security -- verifying the number of shares they owned. Today, share ownership is usually recorded electronically, and the shares are held in street name by your brokerage firm.

Before you buy your first stock, you should master the basics of stock investing. This won't make you a great investor overnight, but only when you understand the fundamentals of investing can you learn how to invest in stocks with confidence.

Key Stocks to Buy for a Starter Portfolio

Newbie investors shouldn't shy away from individual stock ownership. There are a variety of advantages to holding individual stocks in your portfolio. These include the ability to tailor your portfolio to your values and beliefs. Other advantages include more control over costs, tax and estate planning.

An individual investor can be nimble, quick and decisive in their buys and sells, versus a mutual fund manager who often needs committee approval on portfolio shifts. Here are a number of stocks to buy for a starter portfolio.

General Electric Co. (ticker: GE). Smart investment choices are those with strong businesses – like GE – that attract the best talent and possess sustainable long-term earnings power. After GE's financial arm nearly brought down the company in the 2008-2009 crisis, the company faced reality and ultimately decided to return to its industrial roots. In 2015, it announced its decision to sell most of its GE Capital assets, and the sales since then have raised roughly \$200 billion. If all goes to plan, at least \$90 billion will be returned to shareholders through dividends and buybacks through 2018.

Walt Disney Co. (DIS). Disney is a media conglomerate that monetizes its characters and franchises across multiple platforms including movies, home video, merchandising, parks and resorts and musicals. While investors should keep an eye on the pace of ESPN subscriber losses going forward, several of its inimitable assets – namely Disneyland Shanghai and the Star Wars franchise – should help fuel growth going forward.

Facebook (FB). Mark Zuckerberg's company is the leading social

network in the world. While that superlative in and of itself doesn't mean much to investors, its trove of user data allows it to offer hyper-targeted advertising to marketers, and today Facebook and Google (GOOG, GOOGL) essentially dominate the world of digital advertising. With other assets like WhatsApp, Instagram, Facebook Messenger and Oculus, the company is very well positioned to defend itself from competitors and continue growing.

American Express Co. (AXP). American Express is a global charge and credit card payment company, and is famously one of legendary investor Warren Buffett's largest investments at Berkshire Hathaway. With a modest 1.6 percent dividend and a steady stream of share buybacks, the company is devoted to returning capital to shareholders, and still trades at a very reasonable valuation.

Wal-Mart Stores (WMT). Wal-Mart operates retail and wholesale discount stores under the names Wal-Mart and Sam's Club. It's a steady performer with a global presence that isn't going anywhere anytime soon, despite Amazon.com's (AMZN) best efforts. In fact, Wal-Mart has been investing in e-commerce itself, and has seen those efforts rewarded: In the fourth quarter of 2016, total e-commerce sales rose at a blistering 36 percent year-over-year clip.

Berkshire Hathaway (BRK.A, BRK.B). If investing like the best investor of all time sounds like a decent idea, buying Berkshire Hathaway stock is an easy way to do just that. The struggling textile mill that Warren Buffett bought and converted into a high-powered, cash-flowing holding company is built to stand the test of time, and highly insulated from any disastrous market crash via its diversified and thoughtfully complementary portfolio of strong businesses. In fact, when market crashes do happen, Berkshire is often able to take advantage by using its cash hordes to pick up companies on the cheap.

Johnson & Johnson (JNJ). This classic blue-chip stock has been a go-to portfolio cornerstone for decades, and continues to be a great option for conservative investors looking for stability and strength. Diversified among consumer goods, pharmaceuticals, and medical devices, JNJ is home to a litany of billion-dollar brands. Not only can investors sleep easy knowing many of JNJ's products are necessary and ubiquitous, but its solid 2.6 percent dividend yield gives shareholders a decent income stream just for sitting on the stock.

Cisco Systems (CSCO). Networking technology giant Cisco is another solid stock to buy for beginning investors. As the go-to provider of the communications technology that helps power the internet, Cisco's no

longer a growth business, but it is a verifiable cash cow. Already trading at a modest forward P/E ratio below 15, that multiple is nearly cut in half when Cisco's price is adjusted for its cash, which accounts for more than 40 percent of its entire market cap.

Can I purchase stock directly from a company?

There are a few circumstances in which a person can buy stock directly from a company. The following is meant to cover some of these instances, which include direct stock purchase plans, dividend reinvestment plans (DRIPs) and employee stock purchase plans (ESPPs).

Direct Stock Purchase Plan: This is when a person buys stock directly from the issuing company. There are a number of well-known companies that will sell stock directly to individual investors. Most companies that offer this kind of purchase option don't charge investors a commission, and if they do, the commission or service charges is very low compared to buying stocks through a broker. If you're buying a very small number of shares and want to minimize your costs, a direct stock purchase is a great way to go.

Dividend Reinvestment Plans: Investors who own shares in a company with a dividend reinvestment plan have the option of registering with the company and participating in the plan. Instead of receiving dividends from the company, DRIP participants' dividends go directly toward buying more stock in the company. As with direct stock purchases, there are often no commission charges associated with DRIPs.

New investors taking their first steps towards learning the basics of stock trading should have access to multiple sources of quality education.

One great advantage of stock trading lies in the fact that the game itself lasts a lifetime. Investors have years to develop and hone their skills. Strategies used twenty years ago are still utilized today. The game is always in full force.

Well, no. Contrary to conventional wisdom, you don't need to have a hefty trust fund or ultradeep pockets like mutual funds and other institutional players to start investing.

Whether you're a typical working person or a beginning investor, you should know that it doesn't take a lot of money to start. You can begin with as little as \$500 to \$1,000 and add to it as you earn and save more money.

What's more important than how much money you have to invest is learning how to pick the best stocks. Stocks have the potential for big gains if you know which ones to pick at the right time. There are two components to the right time: the stock itself and the overall market.

A stock could sport top-notch fundamentals, such as high Composite, Earnings Per Share and Relative Strength ratings. The company may clearly be a leader in its field, but it's prudent to wait until the stock is breaking out from a sound base in rising volume. Doing so boosts your chances of snaring a profit.

Understanding Penny Stocks' Risks and Rewards

Penny stocks come with high risks and the potential for extraordinary returns, so investing in them requires care and caution. Penny stock companies are often headed for bankruptcy or are highly overleveraged, because of that investing in penny stocks is risky. There are two ways to make money with penny stocks, but they're both high risk. Below is a breakdown on the risk and rewards of penny stocks

Understanding Penny Stocks

Penny stocks can be defined in many different ways. Most people logically assume that penny stocks refer to stocks trading for less than \$1. However, the SEC defines penny stocks as stocks trading for less than \$5. Generally, penny stocks trade on the Pink Sheets or FINRA's OTC Bulletin Board (OTCBB). Both exchanges should be approached with extreme caution, but even more so the Pink Sheets since these companies aren't required to file with the Securities and Exchange Commission(SEC). It's still difficult to find information to formulate a logical conclusion on whether or not the company is likely to survive, let alone thrive.

Whether the penny stock trades on Pink Sheets or the OTCBB, it will be challenging to find credible information. Keep in mind that there are no minimum standards for a company to remain on the Pink Sheets or the OTCBB. (For more, see: What Does it Mean When a Stock Trades on the Pink Sheets or the OTCBB?)

Penny stock scammers deceive by luring inexperienced investors into investing in cheap and worthless stock and taking their money. Be careful not to get caught up in one of these common penny stock scams.

Follow these steps to learn how to invest in the stock market.

Choose your investing style: There are several ways to approach stock investing. Choose the option below that best represents your situation.

I'm the DIY type and am interested in choosing stocks and stock funds for myself.

Or, if you already know the stock-buying game and just need a brokerage, see find round-up of the best online stock brokers.

I know stocks can be a great investment, but I'd like someone to manage the process for me.

You'll want to check out top picks for robo-advisors, which offer low-cost investment management. They'll invest your money for you in a way that makes sense for your goals.

Choose between stocks and stock mutual funds: For most people, stock market investing means choosing among these two investment types:

Stock (also called equity) mutual funds or exchange-traded funds. These mutual funds let you purchase small pieces of many different stocks in a single transaction. Index funds and ETFs track an index; for example, a Standard & Poor's 500 fund replicates that index by buying the stock of the companies in it.

When you invest in a fund, you also own small pieces of those companies. You can put several funds together to build a diversified portfolio.

Individual stocks: If you're after a specific company, you can buy a single share or a few shares as a way to dip your toe into the stock-trading waters. Building a diversified portfolio out of many individual stocks is possible, but it takes a significant investment.

The upside of stock mutual funds is that they are inherently diversified, which lessens your risk. But they're unlikely to rise in meteoric fashion as some individual stocks might. The upside of individual stocks is that a wise pick can pay off handsomely, but the odds that any individual stock will make you rich are exceedingly slim.

For the vast majority of investors — particularly those who are investing their retirement savings — building a portfolio composed primarily of mutual funds is the clear choice.

Set a budget: New investors often have two questions in this step of the process:

How much money do I need to start investing in stocks? The amount of money you need to buy an individual stock depends on how expensive the shares are. (Share prices range from just a few dollars to six figures.) If you want mutual funds and have a small budget, an

exchange-traded fund (ETF) may be your best bet. Mutual funds have minimums of \$1,000 or more, but ETFs trade like a stock, which means you purchase them for a share price (potentially \$10 or less on the low end).

How much money should I invest in stocks?

If you're investing through funds— you can allocate a fairly large portion of your portfolio toward stock funds, especially if you have a long time horizon. A 30-year-old investing for retirement might have 80% of his or her portfolio in stock funds; the rest would be in bond funds. Individual stocks are another story. We'd recommend keeping these to 10% or less of your investment portfolio.

Got a small amount of cash to put to work? Here's how to invest \$500

Open an account: If you're participating in a workplace retirement plan such as a 401(k), you may already be invested in stocks, likely through mutual funds.

If you don't have a 401(k) or you find its investment choices lacking, you can use an online broker to buy stocks, funds and a variety of other investments. With a broker, you can open an individual retirement account, also known as an IRA—or you can open a taxable brokerage account if you're already saving adequately for retirement.

When selecting a brokerage account, you'll want to evaluate them based on factors like costs (trading commissions, account fees), investment selection (look for a good selection of commission-free ETFs if you favor funds) and investor research and tools.

Deciding What To Invest In

Deciding what to invest in is a constant challenge for even the most experienced investor. Nobody really knows that the stock market will do tomorrow. However, an analysis of the last 20 years, 50 years and even 100 years shows that among stocks, bonds, gold, real estate, and bank money markets?

Without a doubt the one of the best place to invest has been the stock market. So if you are trying to decide what to invest in, if you have a time horizon of more than a few years, one of the best place to invest is the stock market.

Now that you have a good brokerage account, it's time to decide what to invest in. One of the most popular ETFs is one that matches the S&P500 Index. It has a ticker symbol of SPY. This is popular because a lot of people have the attitude of "if you can't beat'em, then join them." In other words, instead of trying to pick stocks that will

outperform the stock market, just invest in stocks that match the market. The SPY is the probably the safest place to start when you are trying to decide what to invest in for the first time.

Be careful not to get caught up in one of these common stock scams:

Pump-and-Dump Schemes - This fraud happens all the time. Promoters drum up interest in a scarcely known or unknown stock. Inexperienced investors buy up the shares, pumping the price. Once the stock has reached a certain inflated price, the bad guys sell, or dump, the stock at a huge profit. In turn, investors are left high and dry. These pump-and-dump schemes are often distributed through free penny stock newsletters, where the publisher is paid to list these unpromising and hyped-up stocks. If you get one of these newsletters, read the fine print on its website. You may notice that the companies or promoters are paying the author of the newsletter to feature them.

Short-and-Distort: This is the opposite of the pump-and-dump. Scammers use short-sell to make a profit. Shorting works when the investor borrows shares and immediately sells them in the open market at a high price, hoping the company stock falls so he can later scoop up sold shares at a lower price. He then returns these shares to the lender and nets a profit

Reverse Merger: Sometimes a private company merges itself with a public company, so it can become publicly traded without the hassle and expense of going through more traditional methods. This makes it easy for the private company to falsify its earnings and inflate its stock prices. While some reverse mergers are legit, you can catch a reverse merger by reviewing the business' history and detecting spotty activity in its merger.

Mining Scams: Gold, diamonds, and oil have always been alluring. One of the most famous mining scams was Bre-X, in the mid-1990s, when founder David Walsh falsely claimed his company found a massive gold mine in Burma. Speculation soared fast until the company's valuation, all in penny stocks, was worth \$4.4 billion by 1997. When the company collapsed, most investors lost everything.

The Guru Scam: Guru ads are commonplace, and sadly people fall for them easily. These false ads usually show you how the 'expert' became rich through a special 'secret' and acquired materialistic success, such as glitzy cars, lakefront houses, and boats. The 'expert' promises to share his stock trading secrets with you for a 'one-time' low sum. If someone dubs himself a guru or promises to make you rich, trash that email or envelope. There is no "one-size-fits-all" path to riches, and

certainly not in the stock market. In a similar way, avoid those schemes that promise you unlimited success from a once-in-a-lifetime product or invention that claims to be the next Thomas Edison invention.

No Net Sales Scams: This is when scammers sell shares of a company, stipulating that investors cannot sell the shares for a certain amount of time. The investors buy because they are allured into thinking there is huge and continuing demand for this stock. By the time the U.S. Securities and Exchange Commission (SEC) shuts these companies, investors are left with nothing.

Offshore Scams: The U.S. Securities and Exchange Commission says that companies who operate outside the United States do not need to register their shares when they are selling to offshore investors. Penny stock scammers love this. They buy unregistered and cheap company shares from an offshore location and sell the stock to investors in America at an inflated price. This influx of unregistered shares causes the company's stock price to drop. Thieves make huge money, while U.S. investors are left with little, if anything, to pocket.

How To Avoid Scams

Know the difference between promotion and research. Promoters routinely hire newsletter writers to write flattering reports about their stocks. Many of these writers make a convincing case for investing in dud penny stocks, using hyperbole, outlandish projections and, in some cases, deliberate distortion, as these promotional pieces look very similar to sell-side research reports

One way is to read the "disclosures" section at the end of the report, and see whether the writer is being directly compensated (often in a combination of cash and stock) for the report by the company they're recommending. If that's indeed the case, this is essentially an advertisement, not an actual research report.

How credible is the company's management? A company's success depends on the quality of its management, and stock companies are no different. Always delve into management's track record to determine whether company executives and directors have had any notable successes or failures, regulatory or legal issues and so forth.

How do the financials look? Although penny stocks generally don't furnish in-depth financial information, it won't hurt to check the financial statements the company does release.

Scrutinize the balance sheet to learn if the company has any substantial debt or liabilities outstanding, as well as its amount of net

cash on hand. If the income statement shows huge growth in revenues of late, that's one promising sign.

What's the quality of disclosure? The more disclosure the company provides, the better, as that indicates a greater level of corporate transparency. For instance, the OTC Markets Group divides its securities into a three-tier marketplace: OTCQX (the top tier), OTCQB (middle tier) and OTC Pink, based on the integrity of a company's operations, its level of disclosure and its investor engagement. Since OTC Pink company reporting can be spotty, OTC Markets Group further segments that group, based on the quality and quantity of information provided, into Current Information, Limited Information, and No Information. Obviously, investing in a company with limited or no information is best avoided, as the phrase "no news is good news" doesn't apply in the stock world. In addition, stocks for which OTC Markets Group advises investors to exercise additional care and thorough due diligence typically flash a skull-and-crossbones "Caveat Emptor" sign.

Penny stocks may earn this symbol for a number of reasons: the company or its insiders may be under investigation for fraudulent or criminal activity, or the company may be involved in such dubious promotional activities as spam emails.

Is the business plan achievable? Investors should evaluate whether the company's business plan is achievable and if it actually has the asset base it professes to have. Recall the infamous case of Bre-X, the Canadian junior miner that in the 1990s claimed to have found one of the world's biggest gold mines in Busang, Indonesia: a story that turned out to be a colossal fraud (The Biggest Stock Scams Of All Time). Before it was found out, Bre-X shares climbed from 12 cents to C\$280.

How To Buy Penny Stocks

Once you've learned to dodge scammers, here are five steps to follow when purchasing a penny stock. It's important to evaluate whether the stock has upside potential: You're investing because you'd like to get a return, right? So you need to ask yourself whether the penny stock you're considering truly has upside potential, or if it seems more to be a flavor-of-the-day kind of stock, such as a company's that's trying to ride the coattails of the latest investment fad. You should devise a realistic risk-reward assessment for the stock, even if you're only investing a few hundred dollars in it.

Limit your holdings and diversify: You might be excited about the prospects for your favorite penny stock, but you still need to protect yourself. Cap your losses by limiting your holdings in the stock to no more than 1% or 2% of your overall portfolio. It also makes sense to diversify your penny stock portfolio, which shouldn't exceed 5% to 10% of your overall portfolio, depending on your risk appetite.

Check liquidity and trading volumes: Even if you've made a successful investment in a penny stock, you're going to need to be able to sell your shares. You should have adequate liquidity and trading volumes in the stock so that you can trade it efficiently. Otherwise, you may wind up in a situation where there are few buyers and wide bid-ask spreads, making it nearly impossible to convert your paper profit into an actual one.

Know when to sell: It's very rare for a penny stock to be a long-term buy-and-hold investment. The sector is built on short-term trades, so it's as important to know when to sell as it is when to buy. If you notch sizeable gains over a short period in a penny stock, consider booking them now rather than waiting for bigger profits that may never materialize.

Search for high-quality stocks: Basically, some penny stock companies are worth more than others. Good prospects include ventures that are set up by experienced managers who have successfully exited a previous company; stocks with binomial outcomes (such as biotechnology stocks or promising resource companies) and fallen angels.

Penny stocks are a huge gamble. Despite the short-term potential for gains, stick to a sustainably profitable approach by buying shares in proven companies with strong track records. If you want to allocate some capital to speculative plays, then it may be best to look at companies trading between \$3 and \$5, but only pull the trigger after substantial research that leads to conviction in your position.

What is the Difference Between a Penny Stock , Small-Cap Stock and Large Cap?

Penny Stocks: Penny stocks are super high risk because of their lack of liquidity. Beginners are often lured in to these stocks because of their crazy low share price. This allows investors to hold thousands of shares for a relatively small amount of invested capital. With a scale like that, the gain of just a few cents per share can translate into major returns.

Small-Cap Stocks: Small-cap investors are the risk takers. These small companies have huge potential for growth. However – because they

are often under-recognized, more research is necessary. This requires the investor to have more time available to properly crunch numbers.

Large-Cap Stocks: Large-cap investors are more conservative – these guys like to play it safe. With their steady dividend payouts, these big-cap blue chip companies are as stable as they come.

Chapter 10

Human Capital

Human capital is a term popularized by Gary Becker, an economist and Nobel Laureate from the University of Chicago, and Jacob Mincer. It is also worth mentioning the contributions of Theodore Schultz to this theory. The human capital theory refers to the stock of knowledge, habits, social and personality attributes, including creativity, embodied in the ability to perform labor so as to produce economic value.

Education is an investment in human capital that pays off in terms of higher productivity.

There will always be a discussion about whether certain levels of education are worth the investment.

The process of continually seeking more education keeps your mind active and working hard, improves your ability to learn anything (cognitive skills), and opens your mind up to new ideas. These are all qualities that can increase your human capital.

If you believe that your job is confined to what happens between 9:00 AM and 5:00 PM, your opportunities for advancement might be

similarly limited. However, developing a work ethic in which you expend effort and achieve at levels beyond what is asked of you, you can increase your human capital.

Become a versatile subject matter expert. Learn other people's functions and how to manage other people to increase your human capital.

Explore beyond your industry. When the housing market collapsed, thousands of mortgage brokers were forced out of their jobs. Many of these individuals didn't have much training in any other industry. They had to trade in their six-figure commission-based incomes for low-wage sales training positions or opt to wait for the market to return. With skills in an industry that doesn't fluctuate due to market cycles or other external forces, you will have a higher human capital than someone whose job will always be a victim of circumstances.

Improve your public speaking and presenting skills. If you are a good speaker or presenter, you'll be several steps ahead of someone with the same knowledge and technical skills who does not know how to perform in front of an audience. These are add-on skills that increase your human capital.

Cultivate your human network. In order to boost your human capital, you need to focus on the people you know and meet in two ways: breadth and depth. The more people who know you and are familiar with your skills and interest, the more opportunities you will have to seek opportunities. But not only should you expand your network, you should cultivate your most important contacts.

Publish your thoughts. The easiest way to publish your thoughts is through online writing online. Certain methods of doing so can result in growth in human capital. Keeping a journal of your daily activities is not one of these methods, unless you see journaling as a path to increased income. Most of the time, you should write within your field of expertise. And you should use the name you would like to be known professionally. As your writing increases in volume and quality, your human capital will increase as well.

Stay healthy. Find time to be physically active and eat healthy foods. While we have stories of heavy smokers and drinkers who live beyond one hundred years, this is not the norm. If you want to increase your human capital, you want to behave in ways that are most likely to extend your life. In particular, you want to prolong the years of life during which you have an ability to earn income. Your health is not always entirely in your control, so you should control as many aspects

as possible.

Start early. Whether you're investing or looking to increase your human capital, you want to have time on your side as much as possible. When it comes to investing, longer time periods smooth out risk and offer opportunities for compounded returns; with human capital, the earlier you start, the more time you will have to earn income. Additionally, the younger you are, the easier it is to shift gears and start a new career if necessary. This ability is a significant factor in the measurement of human capital.

With an increased human capital, an ability to earn more income regardless of external forces, you are able to take fewer risks with your investments. Conversely, a lower level of human capital might result in unstable or less income over time, necessitating more risk in investments to achieve a higher return. Human capital is therefore an important part of your total financial value and should be factored in some form in addition to your other financial metrics like net worth, income, expenses, cash flow, and a variety of financial ratios.

Such investments provide returns to the individual as well as to the economy as a whole. Individuals benefit from higher earnings, and the economy as a whole benefits from higher productivity.

It is analogous to other forms of capital in that investments in human capital yield income and other benefits over a long time.

Human capital theory is concerned with finding ways to measure human capital and the rate of return on investments in human capital, both to the individual and to the economy as a whole.

In the United States, for example, the percentage of laborers and unskilled workers has decreased over time, while the percentage of professionals, managers, executives, and technical workers has increased. These changes during the 20th century indicate that the quality of the labor force has risen. Such a change can be quantified to determine how rapidly the average skill level of the labor force has risen over time.

Studies have shown that investments in human capital are essential for sustaining economic growth over time. The law of diminishing returns suggests that investments in physical capital and land eventually fail to result in economic growth. Yet, countries such as the United States, Japan, and many European nations have sustained economic growth over the past century. Heavy investment in the training of workers and a better educated labor force are given credit for much of the growth in per capita incomes and economic productivity. A comparison of modern, educated farmers with farmers in traditional economies shows the need for educating workers to help

them cope with changing technologies.

While economists have been able to demonstrate a statistical relationship between education and earnings, they have not been able to conclusively show a cause-and-effect relationship. That is, while higher earnings are associated with more education, it has yet to be conclusively shown that more education leads to higher earnings. The theory that more education is a causative factor in higher earnings has been attacked on two points. One is the ability problem, or the fact that more-highly educated individuals are also likely to have the ability, self-discipline, and motivation that also result in higher earnings. Such individuals tend to do well in the labor market, it is argued, not only because of their education, but because of other abilities.

The concept of human capital can be applied to an individual firm as well as to the economy as a whole. The expertise of a company's employees is often referred to as its intellectual capital. It may include such intellectual assets as patents, processes, management skills, technologies, information systems, and customer knowledge. Like human capital, intellectual capital is difficult to measure, and companies that recognize its benefits are seeking ways to manage and codify it.

With access to capital and technology tending to level the playing field between companies, human capital has become essential to sustaining a competitive advantage. In order to gain the most from investments in human capital, and in recognition of the importance of people processes, companies are linking individual behavior with corporate goals. The strategic approach to human capital focuses on processes such as dialogue and discussion. Strategies to develop human capital within an organization also focus on the future and take a long-term approach.

Companies can invest in intellectual capital, just as countries invest in human capital, through training programs and hiring practices. Human resources departments can develop a long-term strategy to maximize human capital. Social investment in human capital is a matter of public policy. Examples of policies that tend to increase a country's stock of human capital include using the human capital of women, investing in higher education, supporting dropout prevention programs.

Knowledge, skills, abilities, and competencies can be learned if they are administered correctly to a specific person. The more motivated you are to learn, the more likely is it for you to acquire the information and reflect it in your behavior.

Success

We all desire a self-defined level of financial comfort. For some, this might mean having the ability to pay the bills and have no debt. In a world where many navigate a rocky financial landscape with little to no financial knowledge, the challenge of attaining financial comfort can be difficult or impossible—leaving far too many simply wishing for happy outcomes. There's a stark difference between wishing and putting plans into action.

The challenge exists for planners and consumers alike to develop a thoughtful, meaningful and values-based plan that is understandable and approachable. There are vagaries of financial decisions because so much depends on future events.

What will the markets do?

Where will interest rates be?

Will I have significant health costs?

What will be the cost of college in 16 years?

How much will I really need in retirement?

It's little wonder why there is so much difficulty and confusion in trying to pin down all these variables.

Before you throw up your hands in surrender, it is vital to consider, decide and plan—simply because not doing so puts in you in an indefinable jeopardy. If you have been hitting the wall, unable to make important decisions, change, and improve your life (financial and otherwise), you will be thrilled to know that help has arrived.

You need to understand where your habits help you and where they create roadblocks on the route to achieving your desires.

We make choices constantly; what to eat, what to buy, what to save, where to go—but when you inject the idea of choice, we turn up the amplification on the fact that our mindfulness in making decisions can pilot us to greater life satisfaction and happiness.

Thanks to online platforms, it is now possible for anyone to transform a passion and hobby into a lucrative career. But that does not mean it is always an easy process. Running a business inevitably leads to challenges and tricky decisions. When you launch your own business, one of the earliest challenges is managing your startup costs when you don't yet know how big your customer base is or how big your inventory needs to be, if you're selling products.

Over the last five years, subscription boxes have become wildly popular in the U.S.: There are currently an estimated 10,000 such subscriptions available on the market. While consumers are drawn to subscriptions because they like receiving a monthly or quarterly delivery of curated products in the mail, this model is also a boon to small business owners because it allows them to accurately assess how much inventory they need each month.

How to Discover Your True Talent and Make It Profitable

Your talent lies within your abilities.

Often, our truest passions emerge in childhood, only to be squelched by real life pressures. So think about what you loved long before you had to worry about your career. Writing? Science experiments? Taking care of people? Getting back in touch with those instincts is an important step in finding your passion.

If money were no object, what would you do? Would you travel? Spend all of your time with your children? Would you start a charitable organization to help abused women? Of course money can't be ignored, but don't let financial pressures dictate your choices. Your career should ultimately lead to financial security, but if financial security is the defining motivator, it's unlikely you'll end up doing what you love.

Your talent is like a natural resource waiting for you to discover it.

Once discovered, all you need to do is figure out how to turn it into profit.

Some talents may be easier than others to do so. But imagine how great you'll feel to use that one skill you're already so great at to make money for yourself — even if it's just side-money.

It may be tough, but identifying your talent is worth it.

And don't forget to cheer yourself on as you make small progress. You'll finally be a winner when your talent becomes profitable.

Once you have a solid idea of what you love doing, it can still be a big leap to turn that passion into a viable career.

Here are key steps to start making the change:

Identify your professional Hero: Of everyone you know, either personally or in your extended frame of reference (from your dermatologist to Oprah), whose career would you most want to emulate? Reach out to her to learn more about how she got to where she is, or, if that's not possible, read everything you can about her career and life.

Leverage Social Media: More than ever, we live in a social world.

Once you've identified what it is that you love, get busy on Twitter, Facebook, and LinkedIn, connecting with people who share your areas of interest. Read blogs, join forums, and find out what it's really like to do what you love.

Start Saving Money: Once you feel strongly that you want to start down this new path, start saving. A lot. The more money you have in the bank, the less finances will have to rule your decisions. And the less scary it will be if and when you do quit your job.

Until you give it a go, it's really just speculation. So, whether you take a small step like signing up for a class or you dive head-first into entrepreneurship, roll up your sleeves and do it. You'll never know until you try.

Setting up a home-based business to make money from your natural talents requires some extra work. Here are some resources, as well as things to consider:

You can list your services on websites such as Upwork.com. It is free to join, but Upwork charges you a 10 percent service fee on payments. You can sell your goods online at Etsy.com. It's free to become an Etsy seller, but you'll pay a fee of 20 cents to list an item for four months. When it sells, you pay a 3.5 percent commission to Etsy plus a 3 percent and 25-cent processing fee. At Fiverr.com, you can offer a service that uses your skills.

Pay attention to the paperwork: If you're running a business based on your talent out of your home, you will probably need tax registrations, business and occupational licenses, and permits from federal, state and local governments to operate legally.

Don't forget the IRS: Independent contractors pay federal and Social Security taxes on income. You will need to pay estimated taxes throughout the year, instead of once a year. Go to the IRS Self-Employed Individuals Tax Center (at IRS.gov) for help. Depending on your business's location, you may be required to file state and local income and business taxes.

As you make profit of your talent do not forget to invest wisely. This way your money can also work for you. Real wealth lies in long term investment.

END

From LITMUX

Strategically position yourself!

In order to be successful, there needs to be a road map for success. A strategic plan helps to provide direction and focus. It points to specific results that are to be achieved and establishes a course of action for achieving them. Strategically position yourself for this year.

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RECOMMENDED READING (Business Books)

<https://litmux.com/business-books/>

Supply Chain Management: The Dawn Of New Technologies (2018). Litmux.com

Operations Management: Connecting Strategies And Performance Measurement (2018). Litmux.com

Brand Development: What Great Brands Know (2019). Litmux.com

Digital Marketing: The New Rules Of Digital Marketing (2018). Litmux.com

Reputation Management: Upgrade Your Reputation (2015). Litmux.com

Business Etiquette: Become A Professional Business Person (2015). Litmux.com

Copywriter: Writing Good Advertisement

Startup: How To Effectively Manage Your Startup (2018). Litmux.com

Entrepreneurship: The Step-By-Step Guide (2018). Litmux.com

Modern Marketing: Maximizing Your Modern Marketing Skills (2015). Litmux.com

Campaign Management: Planning, Managing And Measuring Effective Business Campaigns (2018). Litmux.com

Start Your Own Business: Finding Your Ideal Customer (2016). Litmux.com

Public Communication : Modern Public Relations Strategies (2015). Litmux.com

RECOMMENDED READING (Finance Books)

<https://litmux.com/finance-books/>

Money Makers: Great Business Men Who Made A Lot of Fortune (2015). Litmux.com

Wealth Creation: Understanding Investment Vehicles (2018). Litmux.com

Wealth Of Nations: How Money And The Economy Of Nations Work (2016). Litmux.com

Money: A Gold Mine On How To Make More Money (2018). Litmux.com

RECOMMENDED READING (Lifestyle Books)

<https://litmux.com/lifestyle-books/>

Millennial Fashion Revolution: Fashion Industry Before And Now (2018). Litmux.com

Life Hacks: How to Live A Highly Productive Life Everyday (2016). Litmux.com

Positivity: Enjoy A Better Life (2019). Litmux.com

The Leader In You: The Great Keys of Self-Leadership (2014). Litmux.com

Wealthy Living: Healthy Ideas For A Better Life (2015). Litmux.com

Positive Mindset Recipe: How To Continually Have The Best Mindset Everyday (2015). Litmux.com

The Perfect Wedding: The Ultimate Budget Wedding Planning Guide (2018). Litmux.com

Modern Psychology: Be Your Own Therapist (2018). Litmux.com

RECOMMENDED READING (Tech Books)

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Retail Analytics: The Revolution In Consumer Markets (2018). Litmux.com

IT Financial Management For Beginners: Corporate Financing (2015). Litmux.com

Informatics: The Speed Of Digital Transformation (2019). Litmux.com